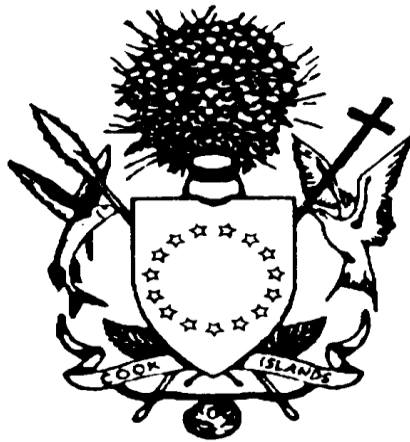

COOK ISLANDS GOVERNMENT
BUDGET ESTIMATES

2012/2013

Book 1

Appropriation Bill

Appropriations and Commentary



Hon. Mark Brown

Minister of Finance

June 2012



**GOVERNMENT OF THE COOK ISLANDS
OFFICE OF THE MINISTER OF FINANCE**

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7 June 2012

STATEMENT OF RESPONSIBILITY

I have read the Financial Secretary's Statement of Responsibility and concur with him regarding the preparation of the Budget Appropriation 2012/13.

The economic and fiscal information included in the budget is based on the best professional judgment that we have at this time.

I accept the overall responsibility for the integrity of the Budget Appropriation Statements 2012/13 and the compliance with the Ministry of Finance and Economic Management Act 1995/96.

A handwritten signature in black ink, appearing to be 'Mark Brown', written in a cursive style.

Honorable Mark Brown
Minister of Finance



**MINISTRY OF FINANCE AND ECONOMIC MANAGEMENT
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7 June 2012

STATEMENT OF RESPONSIBILITY

The 2012/13 Budget Appropriation Estimates have been produced in accordance with the Ministry of Finance and Economic Management Act 1995/96 (the Act).

The 2012/13 budget process involved the annual publication of the Budget Policy Statement and the establishment of the Budget Support Group commissioned to review department budget proposals prior to Cabinet consideration and approval.

In addition, a budget consultation document was produced preceding these documents to encourage community involvement in the preparation of the budget.

In compliance with Section 24 (1) of the MFEM Act the Ministry of Finance and Economic Management provided Cabinet with the:

- estimated revenue of the Crown;
- details of each Government Department's bid for funds; and
- Crown's debt management responsibilities;

Cabinet, as required under Section 24 (2) of the Ministry of Finance and Economic Management Act 1995/96, returned to the Ministry a fiscally responsible budget in accordance with the principles outlined in the Act.

The information in the supporting documentation is comprehensive going well beyond the requirements of the Act and includes a Statement of Fiscal Responsibility that clearly sets out the position in terms of fiscal responsibility as required in section 23 (2) (a) of the MFEM Act.

It should be noted that financial information relating to national public finances differs from previous years due to the change which ensures the Cook Islands Budget is consistent with the standards outlined in the International Monetary Fund (IMF) 2001 manual on Government Finance Statistics.

As Financial Secretary, I accept full responsibility for the integrity of the information provided.

Kia Manuia,

Richard Neves
Financial Secretary



PARLIAMENT OF THE COOK ISLANDS

APPROPRIATION BILL

EXPLANATORY NOTE

This note does not form part of the Bill but is intended to indicate its effect.

The Constitution of the Cook Islands provides in Article 70 (1) that "... all expenditure from the Cook Islands Government Account or from any other public fund or account, shall be in accordance with an Appropriation Act..."

- Clause 1** sets out the short title.
- Clause 2** is the application provision, which specifies the financial year to which the Bill relates. In this case it is the financial year ending 30th June 2013.
- Clause 3** authorises expenditure out of the Cook Islands Government Account of the amounts not exceeding those set out in the Schedules to the Bill, for the several votes specified therein.

Subsection 5 limits any expenditure which may be charged to the 2012/13 appropriation to actual expenditure incurred in the period 1 July 2012 to 30 June 2013.

Subsections 6-7 limits any expenditure which may be charged to the 2011/12 appropriation to actual expenditure incurred up to 30 June 2013.

Subsection 8 limits any expenditure which may be charged to appropriations from years prior to 2011/12 to actual expenditure incurred up to 30 June 2013.

Schedules

HON. MARK BROWN
APPROPRIATION
ANALYSIS

Title	
1. Short title	3. Grant and appropriation out of the Cook Islands Government Account Schedules
2. Application	

A BILL INTITULED

An Act to appropriate certain sums of money out of the Cook Islands Government Account to the services of the year ending on the thirtieth day of June 2013 and to appropriate the supplies granted in this period

MOST GRACIOUS SOVEREIGN: We, Your Majesty's most dutiful and loyal subjects, the Parliament of the Cook Islands, towards making good the supply which we have cheerfully granted to Your Majesty in this year, have resolved to grant Your Majesty the sum specified in this Act and humbly ask Your Majesty to assent to the sum. And be it enacted by the Parliament of the Cook Islands in Session assembled, and by the authority of the same, as follows:

1. Short title – This Act may be cited as the Appropriation Act 2012.
2. Application – This Act applies to the year ending on the thirtieth day of June 2013 (“the year”).
3. Grant and appropriation out of the Cook Islands Government Account –
(1) The Minister responsible for Finance may authorize the incurrence of expenses or expenditure and may issue and apply out of the Cook Islands Government Account, towards making good the supplies granted to Her Majesty for the services of the year, any sums which in total do not exceed the sum of \$179,069,133.

Appropriation

(2) Subject to subsection (3) the sums authorised to be supplied are appropriated for the services set out in the votes specified in the Schedules to this Act.

(3) The votes identified in Schedule 4 to this Act as being funded through loans from financing partners or from grants by development partners are further limited to the lesser of the votes specified in those Schedules and the loan proceeds or grants received for the purpose of financing the expense or expenditure in relation to those votes.

(4) Notwithstanding section 37 of the Ministry of Finance and Economic Management Act 1995-96, the appropriations made under this Act will lapse on 30 June 2013.

(5) Payments that may be charged against any appropriation made by this Act after 30 June 2013 are limited to –

- (i) self balancing journal entries to correct posting errors during the year ended 30 June 2013; or
- (ii) expenses incurred or payments due during the year ended 30 June 2013 for which a valid invoice was submitted before 30 June 2013, but for which a payment or payments to extinguish that liability in relation to that invoice had not been made by 30 June 2013.

(6) The appropriations made in the Appropriation Act 2011 and the Appropriation Amendment Act 2011/12 will lapse on 30 June 2012.

(7) Payments that may be charged after 30 June 2012 against any appropriation that lapses under the provisions of subsection (6) are limited to –

- (i) self balancing journal entries to correct posting errors during the year ended 30 June 2012; or
- (ii) expenses incurred or payments due during the year ended 30 June 2012 for which a valid invoice was submitted before 30 June 2012, but for which a payment or payments to extinguish the liability in relation to that invoice had not been made by 30 June 2012.

(8) Where in the period ended 30 June 2012, the Financial Secretary appointed under section 4 of the Ministry of Finance and Economic Management Act 1995-96 had directed that an unexpended appropriation from an Appropriation Act for a previous year be available for expenditure in the year ended 30 June 2012, those appropriations will also lapse on 30 June 2012.

(9) Payments that may be charged after 30 June 2012 against any appropriation that lapses under the provisions of subsection (8) are limited to –

- (i) self balancing journal entries to correct posting errors during the year ended 30 June 2012; or
- (ii) expenses incurred or payments due during the year ended 30 June 2012 for which a valid invoice was submitted

Appropriation

before 30 June 2012, but for which a payment or payments to extinguish the liability in relation to that invoice had not been made by 30 June 2012.

This Act is administered in the Ministry of Finance and Economic Management
RAROTONGA, COOK ISLANDS: Printed by the Cook Islands Government – 2012

Schedule 1 (a)
Ministry Appropriations

Ministry	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation	POBOCS	Capital Expenditure	Total Gross Appropriation	Total Net Appropriation
Agriculture	878,330	90,535	787,795	0	0	878,330	787,795
Audit (PERCA)	1,023,422	178,700	844,722	0	0	1,023,422	844,722
Crown Law	614,932	0	614,932	70,000	0	684,932	684,932
Cultural Development	861,683	175,000	686,683	807,500	0	1,669,183	1,494,183
Business Trade and Investment Board	679,002	0	679,002	0	0	679,002	679,002
Education	9,957,271	0	9,957,271	2,890,062	110,000	12,957,333	12,957,333
Environment	1,025,001	20,000	1,005,001	0	0	1,025,001	1,005,001
Finance and Economic Management	3,070,111	453,500	2,616,611	15,900,867	0	18,970,978	18,517,478
Financial Services Development Authority	433,415	0	433,415	0	0	433,415	433,415
Foreign Affairs	1,628,985	8,000	1,620,985	868,032	150,000	2,647,017	2,639,017
Head Of State	210,281	0	210,281	15,000	0	225,281	225,281
Health	10,092,313	400,000	9,692,313	1,142,800	495,000	11,730,113	11,330,113
Infrastructure and Planning	2,408,733	183,326	2,225,407	100,000	2,368,694	4,877,427	4,694,101
Internal Affairs	1,146,955	6,000	1,140,955	13,952,800	0	15,099,755	15,093,755
Justice	1,875,183	467,765	1,407,418	217,000	43,000	2,135,183	1,667,418
Marine Resources	1,264,748	15,000	1,249,748	570,000	0	1,834,748	1,819,748
Ombudsman	239,141	0	239,141	0	0	239,141	239,141
Parliamentary Services	599,345	8,419	590,926	2,632,602	0	3,231,947	3,223,528
Pearl Authority	482,026	0	482,026	0	0	482,026	482,026
Police	3,588,856	69,360	3,519,496	230,000	10,000	3,828,856	3,759,496
Prime Minister's Office	1,116,194	0	1,116,194	195,000	115,000	1,426,194	1,426,194
Public Service Commission	419,057	0	419,057	1,138,279	180,000	1,737,336	1,737,336
Tourism Corporation	4,179,446	0	4,179,446	2,000,000	0	6,179,446	6,179,446
Transport	675,626	36,000	639,626	352,273	0	1,027,899	991,899
CIIC	0	0	0	100,000	933,300	1,033,300	1,033,300
Total Ministries	48,470,056	2,111,605	46,358,451	43,182,215	4,404,994	96,057,265	93,945,660
Outer Islands (Refer Schedule 1 (b))	11,215,302	3,097,635	8,117,667	0	263,000	11,478,302	8,380,667
Prime Minister	375,250	0	375,250	0	0	375,250	375,250
Deputy Prime Minister	310,000	0	310,000	0	0	310,000	310,000
Minister Mark Brown	285,000	0	285,000	0	0	285,000	285,000
Minister Teariki Heather	205,000	0	205,000	0	0	205,000	205,000
Minister Nandi Glassie	205,000	0	205,000	0	0	205,000	205,000
Minister Teina Bishop	205,000	0	205,000	0	0	205,000	205,000
Leader Of Opposition	205,000	0	205,000	0	0	205,000	205,000
Capital Distribution Fund - Administered by MFEM	21,420	0	21,420	0	220,000	241,420	241,420
Gross Total	61,497,028	5,209,240	56,287,788	43,182,215	4,887,994	109,567,237	104,357,997

Schedule 1 (b)
Outer Island Appropriations

Island	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation	POBOCs	Capital Expenditure	Total Gross Appropriation	Total Net Appropriation
Aitutaki	1,517,774	48,250	1,469,524	0	0	1,517,774	1,469,524
Autitaki Power Supply	2,213,333	1,864,293	349,040	0	0	2,213,333	349,040
Atiu	1,194,315	264,620	929,695	0	0	1,194,315	929,695
Mangaia	1,556,569	387,522	1,169,047	0	0	1,556,569	1,169,047
Manihiki	821,912	119,200	702,712	0	0	821,912	702,712
Mauke	932,907	142,576	790,331	0	0	932,907	790,331
Mitiaro	577,032	65,650	511,382	0	0	577,032	511,382
Palmerston	348,773	22,100	326,673	0	0	348,773	326,673
Penrhyn	592,672	75,500	517,172	0	0	592,672	517,172
Pukapuka-Nassau	965,687	48,471	917,216	0	0	965,687	917,216
Rakahanga	480,578	59,453	421,125	0	0	480,578	421,125
Outer Island Capital Fund - Administered by MFEM	13,750	0	13,750	0	110,000	123,750	123,750
Outer Island Capital Fund - Administered by MOIP	0	0	0	0	153,000	153,000	153,000
Gross Total	11,215,302	3,097,635	8,117,667	0	263,000	11,478,302	8,380,667

Other Appropriation Schedules
Schedule 2
Benefits and Other Unrequited Expenses

Category of Benefit	Supplementary Estimates 2011/12	Budget Estimate 2012/13
Welfare Payments	12,495,360	13,095,800
Parliamentary Superannuation	220,000	180,000
Total Benefits and Other Unrequited Expenses	12,715,360	13,275,800

Schedule 3
Borrowing Expenses and Debt Repayment

	Supplementary Estimates 2011/12	Budget Estimate 2012/13
Gross Debt Servicing (<i>see Schedule 9</i>)	3,790,000	4,409,642
Total Borrowing Expenses and Debt Repayment	3,790,000	4,409,642

Schedule 4
Other Expenses

Category of Expense	Supplementary Estimates 2011/12	Budget Estimate 2012/13
Airport Authority	1,704,000	1,704,000
Airport Authority - Capital	343,997	343,997
Airport Authority - Outer Island Airport Upgrades Feasibility Study	0	206,000
Airport Authority - Upgrade Government VIP Lounge	0	330,000
Bank of the Cook Islands	181,000	181,000
Ports Authority - Infrastructure	0	200,000
Te Aponga Uira	350,000	350,000
Te Aponga Uira - Capital	800,000	800,000
Building Maintenance	1,300,000	1,800,000
Contingency Funds - Capital Expenditure	50,000	50,000
Contingency Funds - Operating	140,000	100,000
Crown Infrastructure Depreciation	2,469,000	3,478,150
Expenditure of ADB Loan	8,037,500	7,550,000
On-Lending to Ports Authority	6,296,048	0
Foreign Aid	44,931,637	47,498,150
ADB Share Capital	26,600	26,600
Transfer to Emergency Response Trust Fund	200,000	0
Transfer to Reserve Trust Fund	450,115	474,357
Total Other Expenses	67,279,897	65,092,254

Summary

Category of Payment	Supplementary Estimates 2011/12	Budget Estimate 2012/13
Schedule 1 - Ministry Outputs (Gross), POBOCs and Capital Expenditure (Excluding Benefits and other Unrequited Expenses)	94,552,219	96,291,437
Schedule 2 - Benefits and Other Unrequited Expenses	12,715,360	13,275,800
Schedule 3 - Borrowing Expenses and Debt repayment	3,790,000	4,409,642
Schedule 4 - Other Expenses	67,279,897	65,092,254
TOTAL APPROPRIATIONS	178,337,476	179,069,133

3 GOVERNMENT FINANCIAL STATISTICS OPERATING STATEMENT

The 2012/13 budget is presented on the standards established by the International Monetary Fund's Government Financial Statistic Manual 2001.

The GFS framework is an internationally accepted methodology for compiling, monitoring and reporting on fiscal information and statistics across the world.

The GFS framework is based on a series of standard tables which meet the needs of a broad group of users including policy makers, researchers, and investors in sovereign debt.

Whilst the majority of information was previously provided for the Cook Islands, the GFS style of presentation allows it to be standardised and comparable with other sovereign budgets.

Table 3.1 presents the GFS operating statement for the general government sector and the inflows and outflows between it and the non financial corporation's sector (State Owned Enterprises such as the airport authority and TAU) and the financial corporation's sector (Bank of the Cook Islands). The Ministry of Finance and Economic Management will work towards a full consolidated picture for the 2013/14 Budget.

The operating statement presented at Table 3.1 is broken up into several key components.

Operating Transactions

This represents the cost of the ongoing activities of government. The net operating balance represents the difference between revenue and expenses, in contrast to previous presentations, revenue includes all ODA (revenue and capital) whilst expenditure only shows the recurrent expenditure component of development partner activity. In this regard the net operating balance shows a high surplus which is significantly higher than shown in previous operating statements.

To understand the true cash position of the operating statement the impact of depreciation is removed. Whilst the amount is appropriated it is not provided to agencies. This is shown as the Cash Surplus/Deficit from Operating Transactions.

Cash Transactions in Non Financial Assets

This is the non operating statement and outlines mostly transactions of a capital nature which are outlined in Budget Book 3 Capital, these include public works, purchase of plant and equipment and investment in ICT. To understand the actual cash figure which is required necessitates the removal of depreciation, this cost is what is known as net cash applied to the acquisition of fixed assets.

Net Borrowing/lending Requirement

This outlines whether there is sufficient cash from the current revenue to cover the costs of the ongoing operations of government and capital.

The net borrowing requirement is the addition of the cash operating transactions and the cash transactions in non financial assets, a positive number indicates a surplus which can be accumulated to reserves, a deficit requires borrowings or a depletion in reserves.

The next part of the statement identifies how the net borrowing requirement will be financed, or in the case of a surplus where it will go.

Cash applied to the net acquisition of financial assets outlines the movements in the Government's cash reserves, a negative indicates a decline in reserves a positive indicates an addition to reserves.

Cash applied to the net incurrence of liabilities outlines borrowings being undertaken.

Table 3.1 GFS Operating Statement of the Crown 2011/12 to 2014/15 (\$'000)

	2011/12	2011/12	2012/13	2013/14	2014/15
	Budget Estimates	Supplementary Estimates	Budget Estimates	Forecasts	Forecasts
REVENUE	150,096	153,680	158,214	158,320	143,914
Taxes	86,337	88,890	91,922	94,032	96,827
Social contributions	75	75	75	75	75
Grants	43,985	44,932	47,498	43,879	26,251
<i>Current</i>	<i>17,297</i>	<i>17,591</i>	<i>17,523</i>	<i>12,155</i>	<i>10,736</i>
<i>Capital</i>	<i>26,689</i>	<i>27,341</i>	<i>29,975</i>	<i>31,724</i>	<i>15,515</i>
Other revenue	19,699	19,783	18,719	20,334	20,760
EXPENSE	123,376	128,906	131,452	127,787	127,250
Compensation of employees	46,757	46,944	46,674	46,056	46,081
Use of goods and services	43,249	44,024	43,251	37,537	36,190
Depreciation	5,753	5,753	6,963	8,899	10,900
Interest	1,024	969	993	938	839
Subsidies	10,398	14,898	16,827	17,143	16,026
Social benefits	13,495	13,495	14,066	14,443	14,443
Other expense	2,700	2,823	2,677	2,770	2,770
NET OPERATING BALANCE	26,720	24,774	26,762	30,533	16,664
Plus NON CASH APPROPRIATIONS					
Depreciation	5,753	5,753	6,963	8,899	10,900
CASH SURPLUS/DEFICIT FROM OPERATING TRANSACTIONS	32,473	30,527	33,725	39,432	27,565
CASH TRANSACTIONS IN NON FINANCIAL ASSETS					
Net Cash Applied to the Acquisition of Fixed Assets	37,783	38,493	42,463	45,750	51,211
Gross transactions in Non-Financial Assets	32,030	32,740	35,500	36,851	40,311
Less Non Cash Transactions in Non-Financial Assets (Depreciation)	-5,753	-5,753	-6,963	-8,899	-10,900
NET BORROWING/LENDING	-5,310	-7,966	-8,738	-6,318	-23,647
CASH APPLIED TO THE NET ACQUISITION OF FINANCIAL ASSETS	6,222	3,566	-4,584	-1,135	3,799
Domestic Transactions	6,482	3,539	-4,611	-1,074	3,960
Foreign Transactions	-260	27	27	-60	-161
CASH APPLIED TO THE NET INCURRENCE OF LIABILITIES	11,533	11,533	4,154	5,183	27,446
Domestic Transactions	20	20	20	20	20
Foreign Transactions	11,513	11,513	4,134	5,163	27,426
NET CASH FINANCING TRANSACTIONS	-5,310	-7,966	-8,738	-6,318	-23,647

4 FISCAL STRATEGY REPORT

The 2012/13 Budget presents a comprehensive medium term budgeting framework which covers a three year planning horizon (2012/13 to 2014/15). In contrast to previous years, the 2012/13 Budget presents Crown revenue and expenditure in a manner which is consistent with the standards set out in the *IMF Government Financial Statistics Manual 2001 (GFS Framework)*. Additionally, all items of revenue and expenditure are outlined in a three year context, that is the 2012/13 budget year and two additional forward years, 2013/14 and 2014/15.

A major requirement of any medium term budgeting framework is to build up baseline estimates of revenue and expenditure. Budget documentation will then provide a snapshot in time view of the state of public finances. Any movements from one time to the next are captured and reported in any subsequent document outlining what has contributed to the change in spending or revenue. Changes in expenditure or revenue can result from either:

- policy decisions undertaken by the Government; or
- movements that occur outside of the immediate control of the Government. For example, these would include depreciation, movements in welfare beneficiary numbers.

Moving to a medium budgeting term framework and an internationally acknowledged standard of reporting (through the GFS) is consistent with the requirements of fiscal responsibility in Section 23 of the Ministry of Finance and Economic Management Act 1995/96 (*MFEM Act*).

These principles reflect common sovereign financial management principles focussing primarily on:

- managing Crown debt in a prudent manner;
- maintaining levels of Crown net worth into the future; and
- pursuing policies which are consistent with reasonable predictability about tax into the future.

Section 25 also outlines the reporting requirements of the MFEM Act in respect to the requirements surrounding the details on operating expenditure and revenues. This definition of these is not stipulated by the MFEM Act and the change to a GFS reporting framework will change the fundamental presentation of finances and how readers interpret the state of public finances.

The GFS Framework standard differs from previous reporting which was focussed on primarily ensuring that recurrent revenue raised by the Crown was sufficient to cover its recurrent operations. Previously, funds and associated expenditure provided through official development assistance (ODA) were not counted in the operational section of the financial statements.

Recognising that there are different measures, the Budget documentation will report a Net Operating Balance as per the GFS Framework requirements and two further balances. The “underlying budget balance” which will exclude the impact of ODA revenue and associated

expenditures, and the “cash balance” which includes all expenditures (including capital) outline the net borrowing requirement of the budget. The reconciliation of these amounts is outlined in Table 4.1.

Table 4.1 – Reporting of the Budget Balance 2011/12 to 2014/15 (\$000)

Statement of Government Operations	2011/12 Supp Budget	2012/13 Budget Estimates	2013/14 Forecasts	2014/15 Forecasts
NET GFS OPERATING BALANCE	24,774	26,762	30,683	16,814
Remove ODA Revenue	44,932	47,498	43,879	26,251
Include CISNOC repayment Olympic games	0	93	0	0
Underlying Revenue	108,749	110,809	114,591	117,812
Remove ODA Recurrent Expenditure	17,591	17,523	12,155	10,736
Remove CISNOC repayment Olympics	0	-93	0	0
Underlying Expenditure	111,316	113,836	115,632	116,513
Underlying Budget Balance	-2,567	-3,027	-1,041	1,299
Reappropriated Cape Expenditure from Prev Years	0	3,125	0	0
FINAL UNDERLYING NET OPERATING BUDGET BALANCE	-2,567	98	-1,041	1,299

Since the 2011/12 Budget changes to baseline expenditure for the period 2012/13 to 2014/15 have occurred both as the result of the Government policy and by parameters which are outside the immediate control of the Government.

It should be noted that a direct comparison of these baselines cannot be made with the forecasts of expenditure and revenue provided in previous budget documentation due to the manner by which estimates were compiled.

The Ministry of Finance and Economic Management has recreated the baseline for each particular estimate working back from current expenditure levels. From this point on, readers of the documentation should be able to better comprehend the movement in expenditure baselines and be able to back reference figures in previous budgets. Additionally, there will be a clearer understanding of why resources have been provided to Ministries and the nature of those resources, whether they are one off, or ongoing.

4.1 Fiscal Update Overview

The Cook Islands fiscal strategy is established in an environment of continued and greater uncertainty in the global and regional economy, the Cook Islands has a small economic base reliant on tourism. A major item of expenditure is a commitment to underwrite two long haul service routes between Rarotonga and Sydney and Rarotonga and Los Angeles. These This underwrites have increased in cost since the agreement mainly as a result of increased fuel costs.

The 2012/13 Budget was developed in the context of a rigid fiscal environment, whilst seeking to prioritise and meet the policy intentions outlined the 2012/13 Budget Policy Statement.

The Government has produced underlying budget surplus of \$0.098 million for 2012/13.

Total underlying revenue estimated for 2012/13 is \$110.8 million, \$2.1 million additional from the time of the Appropriation Amendment 2011/12. Total underlying revenues are expected to grow by 2.9 per cent in 2012/13 from 2011/12, reflective of a 9.6 per cent increase in grants, primarily due to expected capital infrastructure investments by development partners. Whilst also taking into account a 3.4 per cent growth in taxation revenues, a 5.4 per cent reduction in other revenue and minor decrease in recurrent grants.

Major fiscal features of the budget include:

- Taxation is expected to grow by \$ 3.0 million, (3.4 per cent) in 2012/13 mainly to the increase in import levies.
- Grants are expected to grow by \$2.5 million, (5.7 per cent) as a result of the majority of unspent official development assistance (ODA) funds being re-appropriated into the 2012/13 budget thus giving a higher than usual budget appropriation, including the additional infrastructure projects that have been funded by development partners.
- Other revenues are estimated to reduce by \$1.1 million, (5.4 per cent) reflecting the reduction in State Owned Enterprises (SOE's) dividends to the Crown, trading revenue collected by Ministries and the merger of the Financial Intelligence Unit and Financial Services Commission. (Government will no longer be collecting a portion of the revenue from FSC as this will be utilised to fund the operations of FIU.)
- Other significant movements include adjustments to interest on Crown deposits due to the drawdown of the ADB economic recovery loan funds that were previously deposited with local banks contributing to lower interest receipts.
- Total underlying expenditures are estimated to \$113.8 million in 2012/13, an increase of \$2.5 million above the Appropriation Amendment 2011/12. This increase is reflective of increases in depreciation, building maintenance, increases to payments on behalf of the Crown (POBOC) and new initiatives.

Total POBOCs have increased by \$2.9 million to a total of \$43.2 million. This is predominantly due to the:

- increased provision for airline underwrites, of \$13.6 million an increase of \$1.1 million on the 2011/12 estimate of \$12.5 million appropriated by the Government;
- provision of \$0.500 million for the Pacific Island Leaders Forum;
- centralisation of Ministries (HOM) Salaries at OPSC;
- increase in welfare payments of \$0.4 million to accommodate the increase rate of payment for eligible Cook Islanders aged 70 years and over and;
- establishment of a Seabed Minerals Unit at \$0.370 million.

The underlying operating surplus of \$0.098 million demonstrates a fiscally responsible budget as per the MFEM Act.

Total Capital expenditure is \$4.9 million in 2012/13, an increase of \$1.8 million from the time of the Appropriation 2011/12. The Budget 2012/13 is inclusive of capital upgrades representing more than 50 per cent of capital works, in which is dominated by upgrades to Rarotonga water systems to provide potable water to households by 2015.

The Government through Budget 2012/13 continues the existing policy of allocating 0.5 per cent of taxation revenues into a reserve trust fund to cater for future events that may adversely impact on the Crown.

The overall budget deficit for 2012/13 is estimated to be \$8.7 million.

4.2 Budget Policy Statement

The Budget Policy Statement 2012/13 (BPS 2012/13) was published in December 2011 has formed the basis for decisions towards producing the Budget Estimates 2012/13.

BPS 2012/13 was drafted with the anticipation of a \$2.2 million underlying budget and \$0.624 million was made available for new policy provisions. After the publication of BPS 2012/13, MFEM was advised of the probable increase in the cost of the long haul air service underwrites operated by Air New Zealand. In light of these circumstances, revenue was reforecast on more recent tax information and found to be insufficient for existing expenditure levels, if the goal of an underlying budget surplus has to be maintained in 2012/13.

Commencing with an underlying budget deficit of \$2.1 million in 2012/13, the Government has managed to balance the budget in terms of fiscal responsibility, however given the tight fiscal environment; the Budget 2012/13 supports a prioritised composition of the BPS 2012/13.

This statement was also prepared in the context of a tight fiscal setting given prior commitments to invest significantly into growing the tourism industry through airline underwrites and marketing funds, absorbing operating surpluses available for other priorities of the Government.

The Government has managed to undertake new investments whilst also realigning expenditures to meet some of the key intentions of the BPS 2012/13 with an operating balance and overall balanced budget.

The BPS highlights the following broad strategic priority areas in this 2012/13 Budget Policy Statement are reflective of the goals of the NSDP 2011-2015 as follows, to:

1. continue economic development, ensuring a vibrant Cook Islands economy;
2. invest in infrastructure to provide for further economic growth;
3. ensure energy security for the long term;
4. provide opportunity for all who reside in the Cook Islands through social development;
5. build resilient and sustainable communities;
6. maintain ecological sustainability;
7. apply the principles of good governance; and
8. institute law and order, ensuring a safe, secure, just and stable society.

This brief summary highlights some of the major new investments for 2012/13 by sector against policies outlined in the Budget Policy Statement 2012/13, noting this statement by no means intended to be comprehensive.

Continue economic development, ensuring a vibrant Cook Islands economy

The Government's largest support to the economic sector in 2012/13 is the continued commitment to the tourism industry through a commitment to underwrite return flights direct from Sydney to Rarotonga and Los Angeles to Rarotonga. Funding is also made available through development via development partner to support investment in the Destination Development Strategy at an estimated \$3 million over 2012/13 which consists of \$1.5 million in capital development to improve the tourist experience and the remaining \$1.5 million in marketing funds. These resources will assist to improve the Cook Islands tourism product and underpin the sustainability of growth in visitor numbers under the Tourism Growth Strategy. Government has increased fishing license fees and channelled a portion of these funds into a Fisheries Development Facility under the Ministry of Marine Resources primarily to support small scale fisheries. Government has also co signed a funding agreement with NZAID to support and rejuvenate levels of pearl production via the Cook Islands Pearl Industry Support Programme valued at \$3.0 million. It is expected that returns from this programme will be seen in 2015 going forward.

- Government has also increased funding of \$0.370 million to support the Seabed Minerals Commission in 2012/13, additional to the support provided through technical advice from the Commonwealth Secretariat.

Invest in infrastructure to provide for further economic growth

Government continues to support road works totalling \$0.7 million and the inclusion of funding towards water works that will result in upgrades to Rarotonga water systems to provide potable water to households by 2015.

Review and upgrade of the Pa Enea air transport systems and the development of an aviation master plan.

In addition, a recent analysis of the Pa Enea airports confirms the need to upgrade these airports and a feasibility study will identify the priority of upgrade work required, environmental and economic impacts. Whilst improving runway surfaces to reduce risk of damage to aircraft from loose corals and uneven surfaces, mitigate risks of accidents and present opportunities for airlines.

Various planned infrastructure projects are budgeted to be implemented in 2012/13. This includes the waste and sanitation programme under the NZAID programme of \$3 million, the Rarotonga port upgrade through loan funding at a total of \$6.3 million, the expenditure of ADB Tranche I and II loans of \$8 million and the Peoples Republic of China grant funds of \$14 million towards prioritised infrastructure projects over 2012/13. Government also intends to fund capital investment into the Airport Authority and Te Aponga Uira at \$1.1 million.

Provision has been made for \$0.1 million towards a new Outer Islands Shipping and Freight POBOC. This is a one-off POBOC for 2012/13 to cover the costs of freight associated with the maiden voyage of the “Northern Star” to the Northern group to assist in the improvement of transportation services to the Pa Enea.

Ensure energy security for the long term;

Existing funding continues to support the focus on strengthening the institutional arrangements for renewable energy including better coordination of the sector to implement Governments commitment of converting the electricity needs of 50 per cent of its islands to renewable energy by 2015 and 100 per cent by 2020.

Funding has also been channelled through (ODA) via the Japan Pacific Environment Community Funds for Renewable Energy allocated \$2.2 million in 2011/12, with \$2 million has been carried forward into 2012/13 and the New Zealand Aid Programme renewable energy programme allocated \$2 million. The funding is intended to support to advance renewable energy and upgrading electricity infrastructure to compliment and accommodate the move towards sustainable renewable energy sources.

Te Aponga Uira (TAU) have commissioned a study which determined 100 per cent renewable was achievable over the next ten years with new major infrastructure, and the total replacement of the TAU distribution system. Alternatively, gains could be made with an investment of at least \$105 million in new infrastructure, augmentation of the TAU distribution system, and 50 per cent of the energy being met from renewable with the rest provided from biofuel. TAU expects the completion of detailed engineering and economic studies to determine the feasibility of a 500kW waste to energy plant, the feasibility of medium to large storage facilities and the economic feasibility of private sector participation with the objective of commencing preparing financing proposals by the start of the 2012/13. Research for the supply and feasibility of biofuel will be carried out within the next six months. The construction

of three, NZAID-funded 50kW grid-tie solar installations on the TAU and the Ministry of Education buildings is scheduled to commence by mid-2012/13.

Provide opportunity for all who reside in the Cook Islands through social development;

The welfare POBOC supports and protects the most vulnerable members of our society through the provision of welfare benefits paid by the Government. Government in its manifesto indicated its desire to double the fortnightly pension for those aged 70 years and over. This position was reaffirmed this in the December 2011 Parliament sitting. The planned pension increase will not only help those that are eligible to receive it by also the young families who are responsible for caring for their elderly parents. The rate of payment for eligible Cook Islanders aged 70 and over will increase by \$50 per month to \$450 per month from 1 July 2012. On average, it is estimated that there will be approximately 690 eligible beneficiaries aged 70 and over in 2012/13.

Government aims to introduce with effect from 1 January 2013 a funded maternity leave scheme in parallel to its international commitment as signatory to the International Convention on the Elimination of Discrimination Against Women (CEDAW) and the Millennium Development Goals (MDGs). To assist private sector employers with this cost, the Government will contribute paid maternity leave based on six weeks at the hours ordinarily worked by the mother at the minimum wage rate, currently \$5 per hour. The employer can then top up the entitlement if they so desire.

The Ministry of Education has been provided with an on-going increase to the POBOC amount of to enable equitable access to quality education for all children in the Cook Islands. Therefore, increases funding per student to \$1,926. This compares with a cost of \$2,374 per student in government schools.

Build resilient and sustainable communities;

Funding has been provided by the AusAID managed Climate Change Adaptation Fund this programme provides resources to establish the Climate Change Division within the Office of the Prime Minister for 2011/12 in which the Government has committed to continue funding from 2012/13 and outer years. Other projects to be implemented from this fund are the Aversa Foreshore Extreme Weather Event Vulnerability Assessment and selected Outer Islands Vulnerability Assessments for disaster risk reduction. Both these projects are in progress and due to be completed by the end of 2012/13.

Existing resources continue to support the Joint National Action Plan (JNAP) for Disaster Risk Management and Climate Change Adaptation is a roadmap for building a resilient Cook Islands. It provides a more coordinated approach to dealing with disaster risk reduction and climate change issues by all government departments.

Maintain ecological sustainability;

Funding has been secured through the United Nations – Global Environment Facility (UN-GEF) funded Integrated Water Resources Management (IWRM) Project, overseen regionally by Secretariat of the South Pacific Community (SOPAC) has the aim of improving governance and management of water resources in the Pacific Islands. On Rarotonga the project is focused on gathering information on available groundwater resources and on the effectiveness of various onsite wastewater treatment and disposal systems.

- WatSan has contracted BECA to determine the best practicable option for long term sanitation solutions for Rarotonga and Aitutaki using a comprehensive ‘multi criteria analysis’ approach. Agreed long-term options for sanitation will inform detailed design and construction of the long-term sanitation options, commencing in Aitutaki and Rarotonga in 2012/13 and extending to all Southern and Northern group islands from 2014/15 to 2018. The project (Avarua) city upgrade budget has increased (\$2 million) to allow for the laying of a sanitation sewer. The national sanitation improvement programme will be funded by a blend of grant and loan finances which are under negotiation with partners European Union, European Investment Bank, New Zealand and Australia who will coordinate contributions in sanitation sector partnership.

Apply the principles of good governance;

Investment in managing government’s external relations has been supported through the provision of \$0.500 million for the Leaders Forum under the Ministry of Foreign Affairs and Immigration. Cabinet has endorsed the Aid Policy which provides guidance to the development partners and government departments.

Improving service delivery, accountability and transparency is progressed through the ADB Public Financial Management Review under the Office of the Public Service Commission (OPSC). Resourcing has been increased within the OPSC under the ADB program. The development of cross cutting policies for the public service and machinery of government is expected to be done within existing resourcing. Cost effectiveness is also expected to come through eventual consolidation of administrative services for small government departments.

Government through Budget 2012/13 has vouched a further \$58,000 into the Audit Office to assist MFEM to bring audited accounts up to date to 30 June 2010/11 Crown Accounts to be completed by June 2013. In addition MFEM has been appropriated \$65,000 to centralise the financial accounts in the Pa Enea. This is expected to provide increased accountability, transparency and better information as a basis for public sector decision making going forward.

The budget reflects the provision for \$0.150 million to host the regional Commonwealth Parliamentary Association conference. In addition the budget includes Governments commitment to establishing the Select Committee Support Services unit to initially support the Parliament in scrutinising the Government on various aspects of public finances, this would include audit reports, finance reports of the various entities of the Crown and the budget of the Government as presented to Parliament

Institute law and order, ensuring a safe, secure, just and stable society;

Budget 2012/13 provides modernisation of Customs and Immigration border management system provides new hardware and operating systems for the front line of border security as well as streamlining the lodgment of customs documentation, the automation of collation of statistical data currently entered manually. The amendment to the *Customs Act 1913* is intended to be tabled in the Budget 2012/13 parliamentary sitting to give statutory authority to the implementation of the border management system.

Given the constrained fiscal environment, the Government has decided that legislators should reduce their call on the budget resources. To this end the Civil List has taken a base cut of 10 per cent, accounting to \$0.3 million reduction in Members of Parliament travel and other operational cost. Further appropriation budget reductions have been implemented for all government departments and ministerial support offices to improve budget efficiencies across the public sector.

The Budget 2012/13 as per the MFEM Act requires that Government aligns new investment and expenditures in light of the key intentions of the Budget Policy Statement 2012/13. In reference to the summary of investments outlined above, the Government has managed to undertake these proposals, appropriate expenditures and result with an underlying operating surplus of \$0.098 million in surplus.

5 ECONOMIC UPDATE

5.1 Introduction

The Cook Islands' economy grew moderately in 2009/10 as it recovered from a period of contraction in 2008/09 arising from the global financial downturn.

Higher growth over the period of the budget and forward estimates (2012/13 to 2014/15) is anticipated, however, there greater downside risks to growth are emerging. The anticipated level of growth is reliant on the current global uncertainty creating no further contractions in major tourism markets. Any further contraction could potentially lead to a reduced level of growth in the number of visitors to the Cook Islands.

This economic update also provides a sensitivity analysis on prospects for growth if such a scenario were to emerge.

The tourism industry performance measured by the growth in visitor arrivals continues to perform well. Arrivals from New Zealand grew by a further 10 per cent in the last year, despite sluggish economic growth in New Zealand during the same period.

The Australian market continues to perform and is a strong emerging market. The actual number of Australian visitors in 2011/12 is expected to exceed the projections made at the time of the 2011/12 Budget.

Tourism visitor number forecasts have been revised to take in to account actual data to April 2012, with total visitor numbers outperforming forecasts made at the 2011/12 budget. Total visitors to the Cook Islands in 2010/11 were 108,383 this is expected to increase to approach 125,000 in 2013/14. It should be noted that constraints in accommodation capacity for some accommodation types in Rarotonga are now emerging in the peak season of July through to September. Growth in visitor numbers could be constrained if capacity does not expand to meet forecast demand.

The growth forecasts assume that growth will occur outside of these peak periods.

Price rises measured through the Consumer Price Index (CPI) have been revised upwards slightly from 2011/12 Budget. Actual CPI growth to March 2012 has been 4 per cent and is expected to be around 3 per cent over the forecast horizon. This represents the long run average CPI for the Cook Islands economy. The estimates in the revisions to the CPI have been reflected in the growth rates for nominal projections on GDP, trade, and banking and finance.

5.2 Gross Domestic Product (GDP)

Despite earlier optimism it appears the world is still not through the aftermath of the financial downturn experienced in 2008/09 – particularly given the public finance and associated debt issues facing several countries of the Euro-zone.

Global growth is expected to grow moderately, although downside risks of a global slowdown have recently re-emerged. The Cook Islands, while a long distance from the euro-zone, would not be immune to the risks of a further downturn. A further global contraction would, in all probability, impact on New Zealand and Australia, who supply around 80 per cent of the tourists to the Cook Islands.

The recently published 2012/13 New Zealand Budget illustrates that New Zealand's growth is reliant on the growth in two of its major trading partners – Australia and China.

New Zealand growth is also reliant on a fiscal stimulus which will arise from the re-build of Christchurch. It is expected that the rebuild of Christchurch will stimulate significant demand for labour and supplies in New Zealand. This may place further pressure on the domestic labour pool of the Cook Islands to Australia and New Zealand to pursue economic opportunities.

A downside risk to the Cook Islands forecasts could be realised if labour is enticed to New Zealand for this rebuild or to fill in emerging gaps in other parts of the New Zealand economy. Unemployment in Australia and New Zealand are currently 5.21 and 6.7 per cent respectively which is low by global standards.

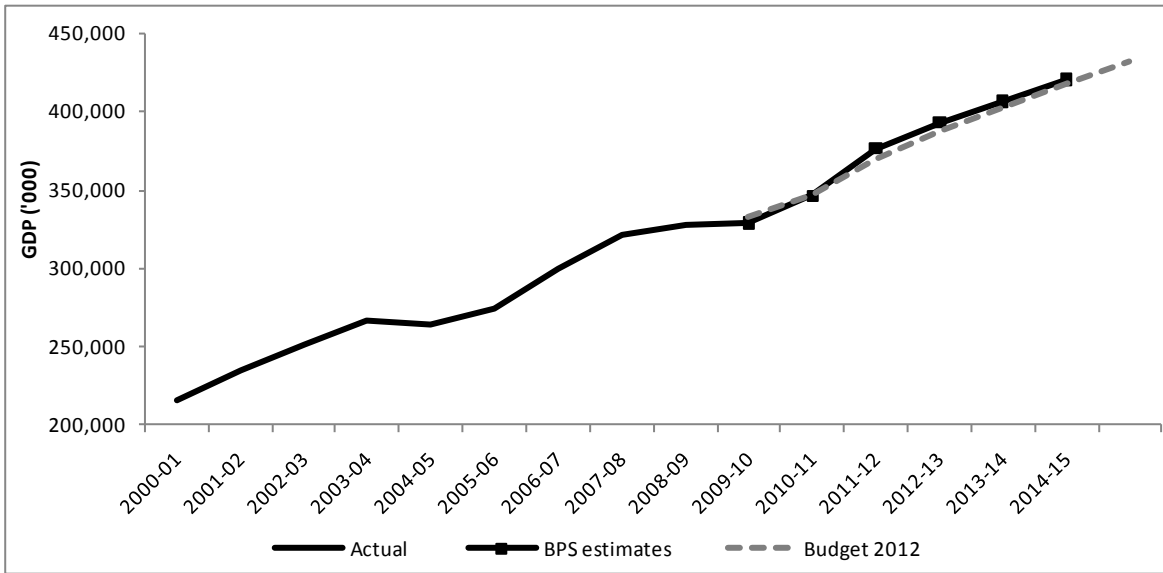
Such a scenario could further exacerbate the declining resident population of the Cook Islands.

Cook Islands' GDP is recorded in nominal and real terms where nominal GDP is calculated based on growth in tourism expenditures, government expenditures and export receipts. This is deflated by the Consumer Price Index (CPI) to arrive at a real GDP figure.

The Statistics office estimates GDP on a calendar year basis whereas forecasts in this update are provided on a fiscal year basis (July to June). The Statistics office have recently revised processes around the production of GDP estimates. From 2012/13 the Statistics office will aim to produce quarterly outcome of GDP on the basis of VAT returns.

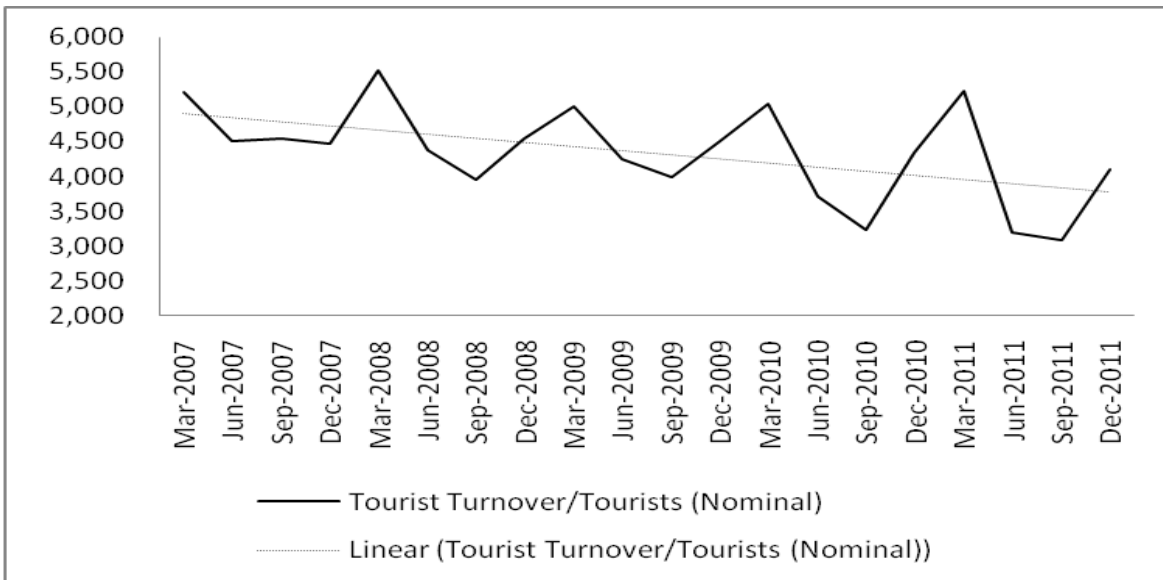
The most recent GDP outcomes are available for calendar year 2010, actuals for calendar year 2011 will be finalised by June 2013. GDP for 2010/11 remains as an estimate, forecasts have been produced for the years to 2014/15.

Chart 5.1 Nominal GDP at current prices, \$'000



Nominal GDP for 2010/11 is estimated to have been \$347.6 million. Despite continued strength in the expected number of future tourists, nominal GDP over the period from 2012/13 to 2014/15 has been revised down in the 2012/13 Budget when compared to the Half Year Economic and Fiscal Update published in December 2011. This revision downwards in the face of increasing tourism numbers is in light of actual Value Added Taxation (VAT) returns which have not reflected similar increases in growth.

Chart 5.2 VAT collections per tourist



The Cook Islands appears to be experiencing a structural shift in the economy and correspondingly this could be being reflected in the changing revenue base of the Crown.

Two challenges are emerging in the economy, although these are difficult to quantify at this stage.

Firstly, the on-going decline in the resident population outlined in the 2011 Census demonstrates the reliance on a smaller base of residents to maintain and grow the Crown's revenue base (in the form of VAT and Income taxes). The continued movement of young Cook Islanders for opportunities in Australia and New Zealand will continue to place pressure on the labour market and the economy.

Secondly, evidence from recent VAT collections appears to confirm anecdotal evidence on overall tourist spending patterns. The Ministry of Finance and Economic Management in conjunction with the Tourism Corporation will undertake a quarterly survey over the upcoming 12 months to improve overall understanding of tourist spending patterns during the whole year.

There may also be increased level of economic activity that is happening in New Zealand as technology such as internet banking which allows for people to conduct their business affairs offshore.

Any downturn in economic growth from major tourism markets will continue to impact on the economy, whilst tourism numbers may grow strongly, constrained economic conditions at home will most likely manifest itself into a lower spend by tourists.

The 2012/13 New Zealand Budget confirmed that the strong New Zealand dollar was expected to provide greater opportunities for New Zealanders to holiday abroad (alluding to greater holidays in non NZD denominated economies). Additionally, the New Zealand Budget also outlined a continued expectation that consumption spending by New Zealanders will continue to be moderated by New Zealand households' rising rate of saving in the face of high average debt levels.

Despite the mining boom in parts of Australia, it appears that similar savings behaviour is being experienced in the Australian market which is focussed on the Australian east coast. The 2012/13 Australian Budget has outlined that real household net worth is reduced and that despite the cautious recovery in share prices and stabilisation in house prices in recent months households are expected to continue to save at elevated rates, rebuild wealth and reduce debt levels.

The Ministry of Finance and Economic Management has:

- estimated nominal GDP growth for 2010/11 on the basis of the historical relationship between VAT growth and GDP growth; and
- forecast 2011/12 and future years on a tourism based model that has been used in the more recent economic forecasting updates.

Nominal GDP growth is estimated to have been around 4 ½ per cent in 2010/11 increasing to around 6 ½ per cent in 2011/12. Growth is forecast to be 5 per cent to be 2012/13 and 4 per cent in 2013/14 before reverting to the long-run growth rate assumption of 3 ½ per cent per annum.

Exports will continue to provide a small contribution to nominal GDP (approximately 1 ½ per cent), the small increase in exports over the forecast horizon will have an immaterial effect on driving GDP growth.

Crown expenditures are projected to be similar to those appropriations that were agreed to in previous years.

Real GDP is expected to be 2 ½ per cent in 2010/11 before rising to 3 ½ per cent in 2011/12 and then sliding back to 2 per cent in 2012/13.

Table 5.1 Summary of Economic Indicators

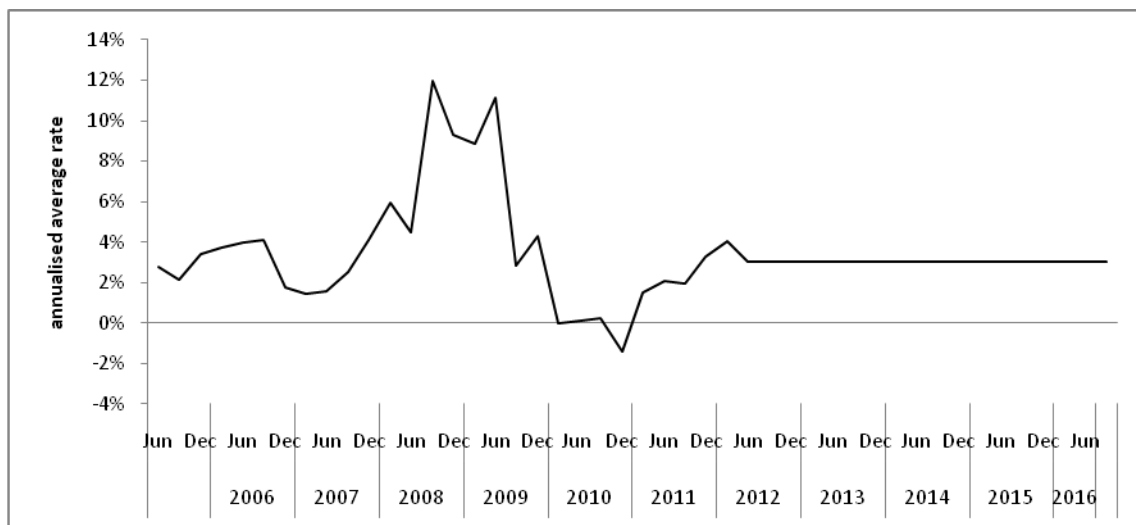
Economic Indicators	2010/11	2011/12	2012/13	2013/14	2014/15
	<i>Actual</i>	<i>Proj</i>	<i>Proj</i>	<i>Proj</i>	<i>Proj</i>
Economic Activity					
Nominal GDP (\$'000)	347,600	369,800	388,300	403,800	417,900
Percentage change (YOY)	4.5	6.4	5.0	4.0	3.5
Real GDP (at Constant 2006 Prices, \$'000)	276,000	285,400	291,100	293,900	295,400
Percentage change (YOY)	2.5	3.4	2.0	1.0	0.5
Inflation					
Consumer Price Index (base Dec. 2006 = 100)	120.7	124.3	128.0	131.8	135.8
Percentage change (YOY)	2.1	3.0	3.0	3.0	3.0
Construction/Capital Investment					
Commercial Building Approvals (\$'000)	1,900	2,900	3,000	3,100	3,200
Residential Building Approvals (\$'000)	9,500	7,800	7,800	8,000	8,300
Public Works (\$'000) includes Dev Partners	NA	50,650	38,106	55,796	35,026
Productive Sector Indicators					
Visitor Arrivals	108,400	115,900	121,400	124,700	127,500
Percentage change (YOY)	9.5	6.9	4.7	2.7	2.2
Estimated Visitor Expenditures (\$'000)	174,300	192,000	206,200	217,100	227,500
Pearl Exports (\$'000)	640	640	640	1,000	1,500
Fish Exports (\$'000)	1,500	1,500	1,500	1,500	1,500
External Sector					
Merchandise Trade Balance (\$'000)	(107,700)	(102,700)	(109,500)	(114,300)	(118,300)
Services Trade Balance (\$'000)	251,900	274,600	292,900	307,300	320,800
Exchange Rate (USD/NZD Average for Mar-2012)	0.787	0.802	0.802	0.802	0.802
Financial Sector (at end of financial year)					
Net Government Credit Position (\$'000)	NA	NA	89,000	84,600	80,100
Private and Public Enterprise Deposits (\$'000)	192,000	204,200	214,500	223,000	230,800
Private and Public Enterprise Loans (\$'000)	281,900	299,900	314,900	327,500	338,900

5.3 Consumer Price Index (CPI)

Inflation in the Cook Islands is measured by the Consumer Price Index (CPI) which is produced on a quarterly basis.

At the time of publication the most recent CPI data available was for the March 2012 quarter which showed annual inflation at 4 per cent. This was predominantly driven by increases in the price of fuel.

Chart 5.3 Consumer Price Index (CPI) moving average, 2005 - 2015, (\$'000)



The predominant drivers to inflation figures to March 2012 include: a

- 16.5 per cent increase in the prices of fuel and light and 7.3 per cent increase in the price of motor fuel; and
- 7.1 per cent increase in the clothing;

As chart 5.3 demonstrates, inflation I assumed to settle at around 3 per cent of the forecasting horizon. The long run average assumption is based on the forecast of New Zealand CPI at 2 ½ per cent, as it is the predominant trading partner of the Cook Islands and an additional component for local supply circumstances.

5.4 Tourism

The tourism sector continues to be the cornerstone of the Cook Islands economy and is estimated to contribute (directly and indirectly) to around 75 to 80 per cent of economic activity. In recent years governments have continued to support and stimulate activity within the sector and ensuring the benefits are distributed across the wider economy.

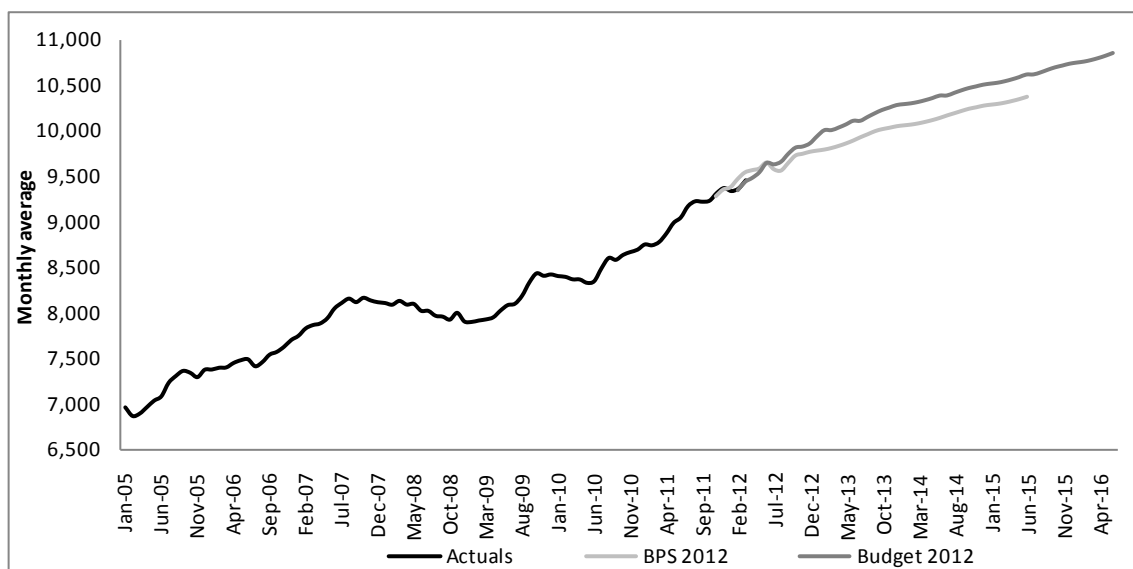
The base assumption around tourist activity in the Cook Islands has been revised from previous updates. Previously, it was assumed that the average visitor stays in the Cook Islands was 10 days. In light of automated information now available through the automated immigration and

customs system it has now been revised down to 7.4 days. Visitor spend is estimated to be \$227 per day increasing by 2.5 per cent per annum, this information will be reviewed in light of the joint survey of tourism expenditure by the Ministry of Finance and Economic Management and Tourism Corporation.

The major tourist markets in the Cook Islands are assumed to be New Zealand (66 per cent), Australia (16 per cent), Europe (9 per cent) and North America (4 per cent).

There were 94,507 visitors for the ten months to April 2012 a 6.3 per cent growth over the same period in 2010/11 and 1.3 per cent above forecasts made at the time of the 2011/12 budget 2011/12 and the 2012/13 BPS.

Chart 5.4 Total visitor arrivals (12 month moving average) 2005-2015



This year on year growth is predominantly due to increased numbers of New Zealanders followed by Australians. In the BPS 2012/13 it was estimated that forecast visitor arrivals for 2011/12 would exceed 115,900, this is estimated to be surpassed and continue growing at 2.5 per cent in 2012/13 and 2013/14 and 2.2 per cent in 2014/15.

Table 5.2 Actual and forecast total tourism numbers by quarter 2009/10 to 2013/14

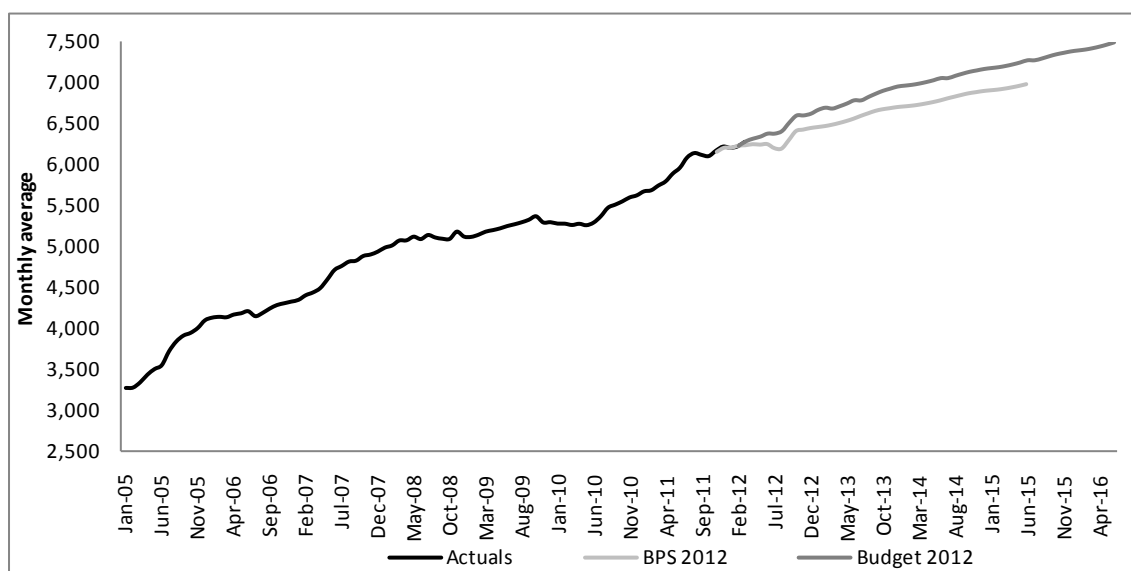
	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
2009/10	29,973	25,586	18,446	24,992	98,997
2010/11	33,768	26,928	19,459	28,228	108,383
2011/12	35,965	28,738	20,476	30,729	115,908
2012/13	37,155	30,109	22,211	31,954	121,429
2013/14	38,139	31,180	22,622	32,795	124,736

5.5 Major Markets

5.5.1 New Zealand

New Zealand continues to be the Cook Islands leading market for visitors accounting for approximately 66 per cent of the total market. Annual growth in 2011/12 is anticipated to be 7.5 per cent. The New Zealand market has performed well against the most recent forecasts released in December 2011 forecasts for March 2012 being surpassed by 600.

Chart 5.5 New Zealand visitor arrivals (12 month moving average) 2005-2015



Growth in visitor numbers from the New Zealand market going forward has been revised upwards to 9.3 per cent in 2011/12, 5.6 per cent in 2012/13 and 2013/14.

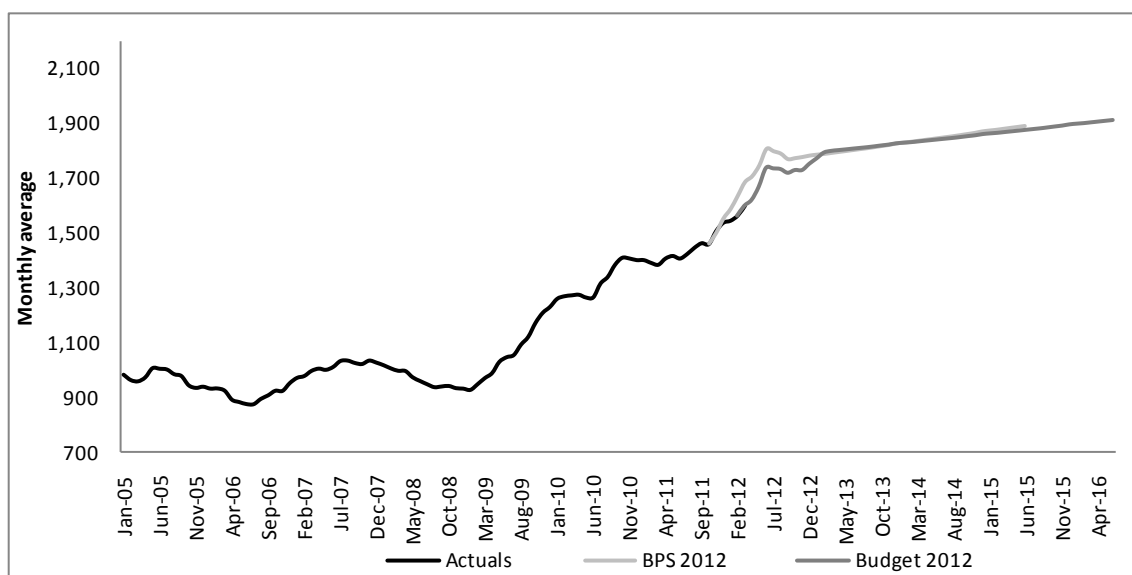
Table 5.3 Actual and forecast New Zealand tourism numbers by quarter 2009/10 to 2013/14

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
2009/10	21,425	14,768	9,403	17,882	63,478
2010/11	24,068	16,134	10,850	20,511	71,563
2011/12	25,953	17,361	11,543	21,628	76,485
2012/13	27,553	18,671	12,294	22,832	81,350
2013/14	28,524	19,710	12,725	23,631	84,590

5.5.2 Australia

The Australian market has over the past two years progressed itself to being the second largest tourism market to the Cook Islands over Europe, accounting for approximately 16 per cent of the total market share of visitors to the Cook Islands.

Chart 5.6 Australia visitor arrivals (moving average), 2005-2015



Total tourism from this market is expected to increase from 16,909 in 2010/11 to 22,612 in 2011/12, an upward revision from the 21,675 estimated at BPS reflective of a full year of the direct flight.

Growth in visitor numbers from the Australian market going forward has been revised to 3.9 per cent in 2011/12, 1.9 per cent in 2012/13.

Table 5.4 Actual and forecast Australian tourism numbers by quarter 2009/10 to 2013/14

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
2009/10	3,604	5,221	3,102	3,288	15,215
2010/11	5,022	5,429	2,899	3,559	16,909
2011/12	5,692	6,322	3,644	5,204	20,862
2012/13	5,480	6,715	4,200	5,301	21,696
2013/14	5,580	6,844	4,282	5,397	22,103

5.5.3 Europe

The European market has continued to fall significantly from its record high levels of 25,228 in 2000/01 to 10,565 in 2010/11. The major contribution to the decline is driven by a declining UK market. In 2011/12, European visitors are estimated to 9.4 per cent below the levels reached in 2010/11, continuing the downward trend in visitors from this market.

European arrivals are forecasted to fall further in 2012/13 and beyond, continued economic turbulence in Europe, airline access issues, and a wider range of options for travel is placing pressure on this part of the market. Growth in the outer years is expected to be conservative and remain static pending market indications going forward.

Chart 5.7 Europe visitor arrivals (moving average) 2005-2015

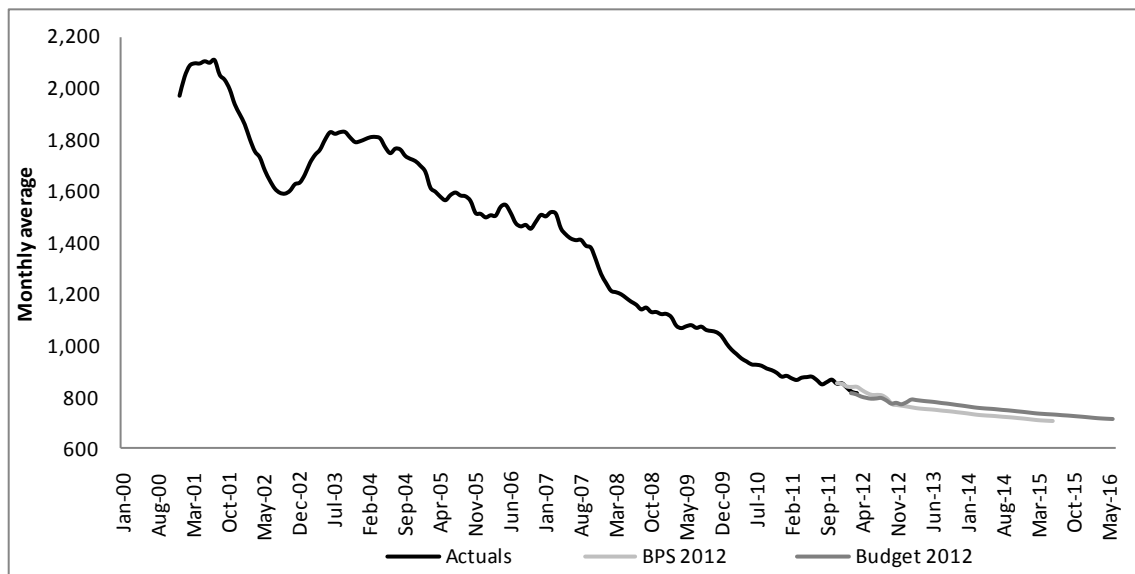


Table 5.5 Actual and forecast European (including UK) tourism numbers by quarter 2009/10 to 2013/14

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
2009/10	2,642	2,998	3,571	1,908	11,119
2010/11	2,451	2,617	3,414	2,064	10,546
2011/12	2,197	2,565	2,951	1,845	9,558
2012/13	2,116	2,373	3,156	1,766	9,411
2013/14	2,026	2,273	3,051	1,709	9,059

5.5.4 North America

Visitors from North America have consistently fallen since 2000 mainly as a result of reduced air access, albeit there has been a slight recovery in the last few years.

A total of 6,730 visitors came from North America in 2010/11, year to date data for March 2012 indicates, a 5 per cent decline on the same period in the previous year.

Little growth has been seen in this market in the previous 12 months, growth has been held constant over the forecast horizon.

5.6 Marine Resources

The Cook Islands marine sector continues to predominantly be made up of the tuna and albacore fisheries and black pearls.

In 2010 the marine sector grew by 6 per cent contributing approximately \$8 million to nominal GDP noting that within the year the performance of the Marine Sector is measured on the basis of exports earnings.

The total actual value of marine exports for 2010/11 was \$3.7 million, significantly below the forecast of \$4.9 million – this reduction was driven by lower than expected pearl exports over the period. Going forward the export of the marine sector is expected to grow at 4 per cent driven by expected increases in fisheries exports.

5.6.1 Fishing

The Cook Islands fishing industry continues to be serviced by the northern and southern fleets, with 34 licensed vessels servicing both fleets in 2010/11 and 43 vessels in 2011/12.

The Northern fishery lands the majority of its catch in Pago Pago with the remaining stock dispersed to smaller markets in Japan, Thailand and Brazil while the Southern fishery service is expanding the local market on Rarotonga and exporting to markets such as Japan, New Zealand, and USA.

The preliminary estimates of raised catch from northern fishery vessels totalled just over 8,200 metric tonnes in 2011, and valued at \$24.2 million dollars, albacore tuna as the dominant catch species worth \$16.8 million dollars. Southern fishery catches from vessels based out of Rarotonga totalled 106.5 metric tonnes and is valued at \$1.5 million dollars on the local market.

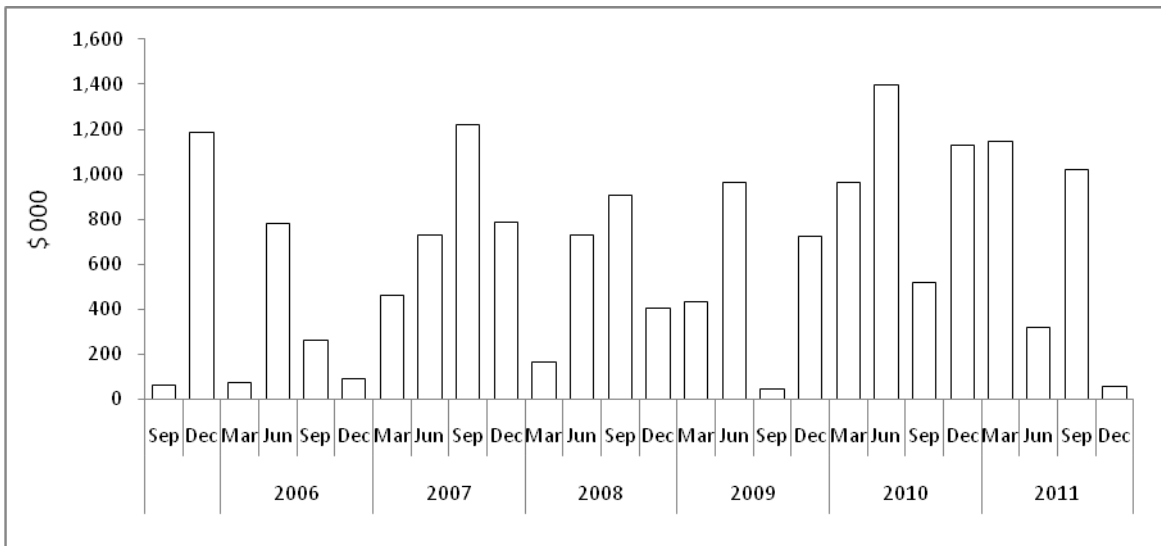
Fresh fish exports from Rarotonga began in the second quarter of 2011/12 in November 2011 of 6.6 tonnes to markets in New Zealand and Japan, and were valued at just over \$98,800. Export volumes increased in the third quarter, to New Zealand and USA markets, with exports of 8.5 tonnes valued at \$114,270. Regular airfreight export of fresh fish from Rarotonga is expected to continue and increase to around 20 tonnes per quarter in the next financial year.

With the introduction of the exploratory fishery programme and the licensing of 13 vessels under this programme in the second and third quarters in 2011/12, catches and subsequently fishery value will increase.

Noting the high volatility of exports over the previous year, the Ministry of Marine Resources expects the prospects for growth in 2012/13 to increase as fleets are encouraged to process their catches out of Rarotonga as per the licensing incentive scheme recently introduced by the Ministry. Government agreements with large fishing companies will also encourage increased unloading and exporting of catches from Rarotonga.

As a result of this emphasis on exports and onshore value added processing, it is anticipated that airfreight exports out of Rarotonga will continue to increase, along with access to markets such as Australia, China and the European Union. Increase in frequency of containerized freezer shipments from the Avatiu Port is expected to commence in 2012, and once port infrastructure developments are completed the export of high quality semi-super frozen fish (-35 degree Celsius) is expected to become one of the major export commodities for the country. Progress of this initiative will be assessed over 2011/12.

Chart 5.8 Fish Exports 2005/06 to 2015/16, (\$'000)



By 2014/15 it is anticipated that processing and containerised exports out of Penrhyn may also take place with a programme rolled out under the Ministry of Marine Resources.

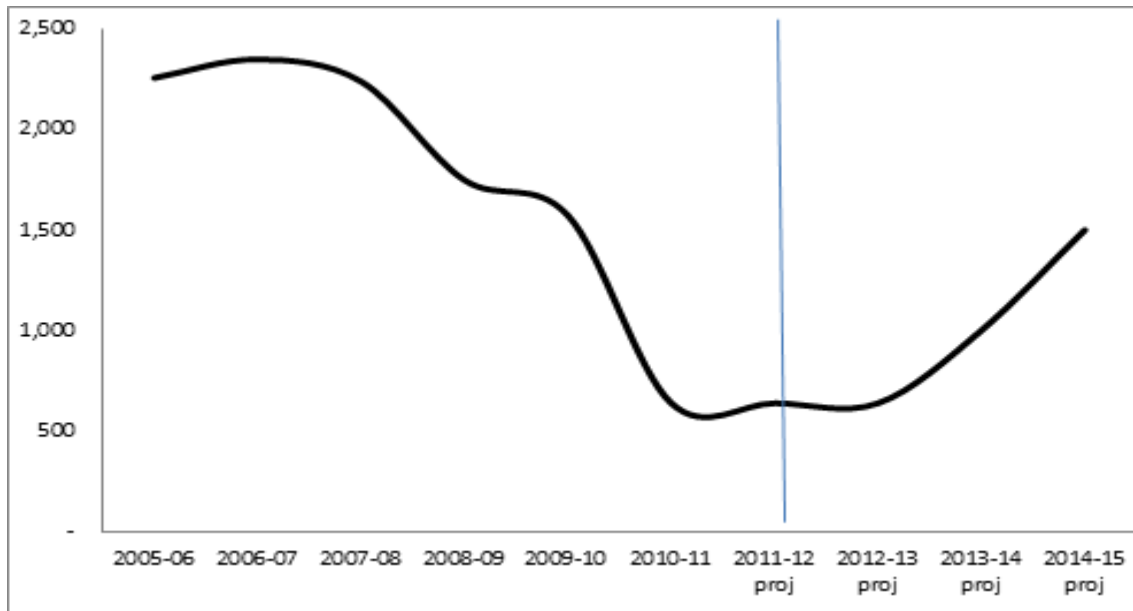
Forecasts for fisheries exports remain positive given the trend to date. Going forward it is expected that exports will grow at five per cent per annum in line with returns from the Ministry of Marine Resources rebate scheme and the increased number of vessels offloading catch in Rarotonga for processing.

2.6.2 Pearl

Cook Islands pearls are sold on the domestic and international markets; however, it is difficult to quantify the size of the domestic market. It is estimated the domestic industry absorbs around thirty per cent of the total number of pearls produced which in recent years has averaged between 100,000 – 150,000 pieces.

The performance of the industry is heavily focused and assessed on the export trends of the industry over time. However as noted above there is an increasing trend to sell pearls on the domestic market rather the export market because of declining prices overseas.

Chart 5.9 Pearl Exports 2005/06 to 2014/15, (\$'000)



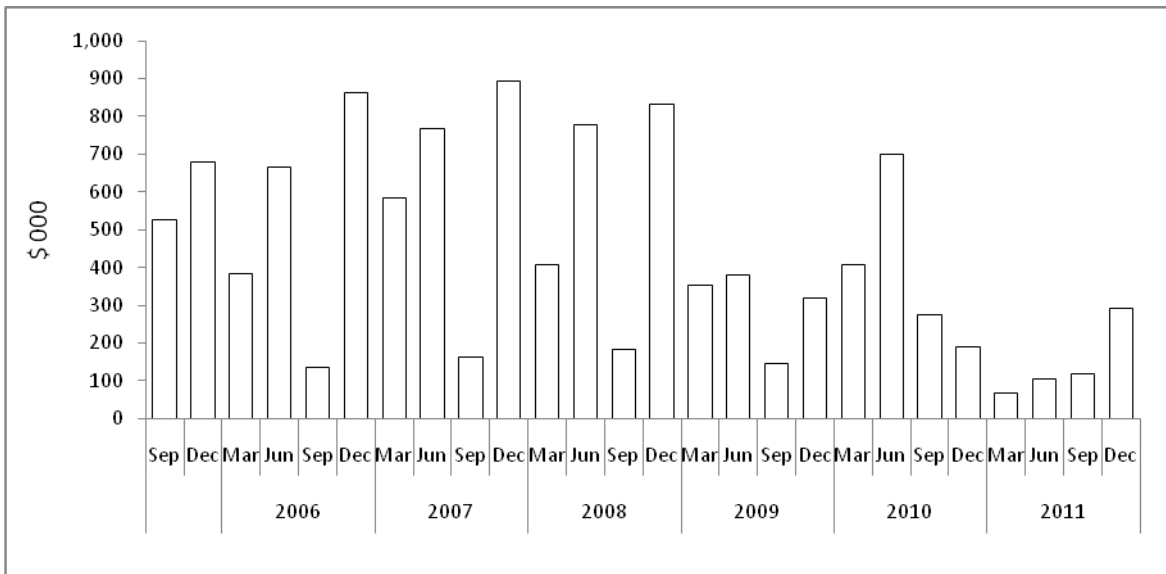
The actual values of pearl export continue to decline. In 2009/10 the pearl exports decreased by 10.1 per cent from 2008/09 and decreased a further 59.5 per cent from \$1.6 million in 2009/10 to \$0.6 million in 2010/11. This is the lowest recorded export figure since the peak of \$18 million in 2000.

Given the previous levels of production it was expected that a total value of \$2.0 million dollars of pearls would be produced in 2011 and that \$1.4 million dollars of pearls would have been exported in 2011. The actual export figure of \$0.6 million dollars suggests that a greater proportion of pearls are either being sold on the domestic market than expected or pearls are being stockpiled for future sale.

The current number of pearl shell being farmed in Manihiki is estimated at 894,000 pearl shells, which in 2014/15 should result in \$4.7 million dollars of pearls being produced. However the given the export trend is only expected to reach \$1.2 million dollars this leaves an unreasonable expectation that the remainder of the crop of \$3.5 million dollars would be sold on the domestic market. New markets must be found to ensure that farmer's harvests are being sold in a timely fashion.

The Government has invested \$2 million and taken on a New Zealand Aid (NZ Aid) programme worth \$3 million, with the intention to stimulate growth through implementing key production, marketing, capacity building, and programme management initiatives. Funding from this programme has been drawn down and is expected to be rolled out from 2011 through to 2013 noting that the time lapse in which results are to be seen is 18 months from the time of seeding the oyster shells with a new influx of pearls expected to enter the market from 2013.

Chart 5.10 Pearl Exports 2005/06 to 2014/15, (\$'000)

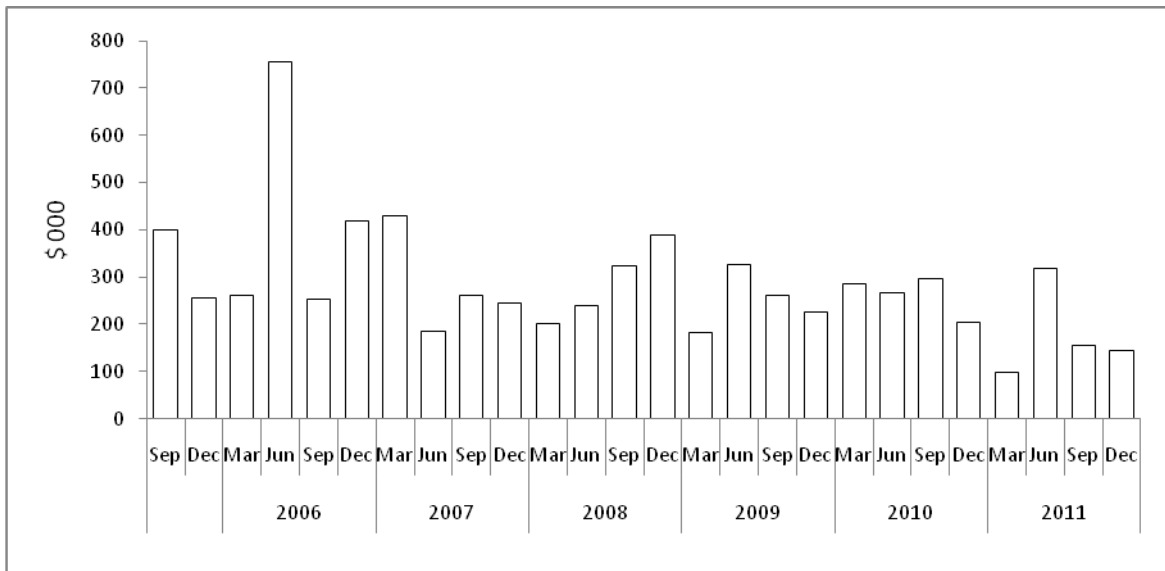


5.7 Agriculture

Agriculture remains a largely informal sector in the Cook Islands economy and its total contribution to the economy is difficult to quantify. The latest GDP estimate indicate that the sector accounted for 2.9 per cent of GDP equating to around \$9.3 million in 2009, then declined slightly to 2.7 per cent of GDP, approximately \$9.1 million in 2010. The supply and demand for produce is predominantly based in Rarotonga.

Constraints to successfully expanding production to meet the growing demand of both the local and international market continue to be local enterprise, labour shortages, water supply and high costs of transportation from the production source to the market (Rarotonga and international markets).

Chart 5.11 Agriculture Exports 2005/06 to 2014/15, (\$'000)



The export of agriculture produce for 2010/11 was estimated to total \$0.6 million at the time of the budget in July, however actual data reflects a much higher value of exports at \$0.9 million consisting of noni (\$0.8 million) and maire eis (\$0.1 million) exported to markets in Japan and Hawaii respectively.

Despite projections for a decrease in noni exports earlier in 2011, promising export figures have indicated the bounce back of the Japanese importers demanding Cook Islands produce and the eventual re-exportation of the product.

Going forward this is expected to continue, meanwhile noting the dominance of the noni product in the agriculture export sector, the Ministry of Agriculture (MoA) has indicated that re-exportation of the pawpaw fruit is scheduled to begin in February 2012 which would also contribute to strong exports in this sector.

5.7.1 Domestic Market

Fresh fruit and vegetables are the main agricultural produce traded on the domestic market. Growth in the tourism industry will further increase the demand for fresh produce, surplus demand continues to be met through imported produce from overseas markets.

There is potential to strategically increase production to cater for the expectation of increased demand and at the same time reduce the import substitution gap. If concentrated efforts are not made to increase domestic supply, reliance on imported produce will continue to deepen and limit the spread of economic returns to the agriculture industry from the higher number of expected visitors.

Until the private sector re-orientates itself to fill the gap of import substitution, projections are that growth in imported produce will increase in line with growth in the economy.

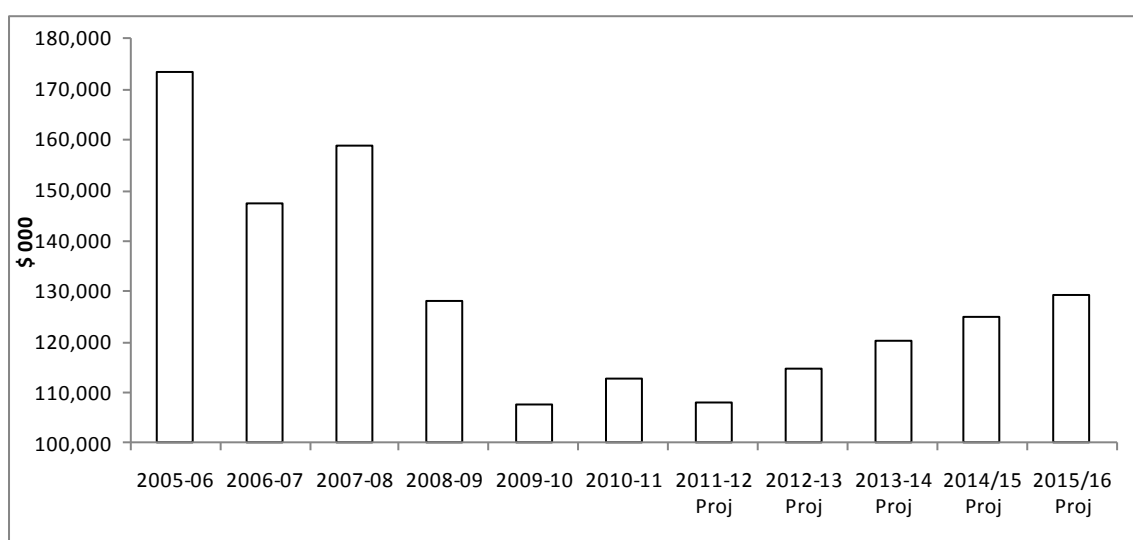
5.8 Exports and Imports

5.8.1 Imports

The tonnage and value unloaded at Cook Island ports increased by around 5 per cent in 2010/11 by 5 per cent - providing the best proxy that import volumes should have continued to grow by similar levels.

The import leakage for the Cook Islands is estimated at around 58 per cent, representing \$0.58 leaking out of the economy for every \$1 spent in the Cook Islands. This is because of the Cook Islands heavy reliance on imported products to meet local demand including demand driven by the tourism industry.

Chart 5.12 Value of total imports 2005/06 to 2014/15, (\$'000)



Data indicate that total import in to the Cook Islands in 2011 was \$105.7 million, 5.4 per cent below the \$111.8 million imported in to the country in 2010.

Import volumes were predominantly made up of food and live animals (27.7 per cent), machines, transport and equipment (27.4 per cent), basic manufactures and miscellaneous manufacture goods recording 11.4 per cent each.

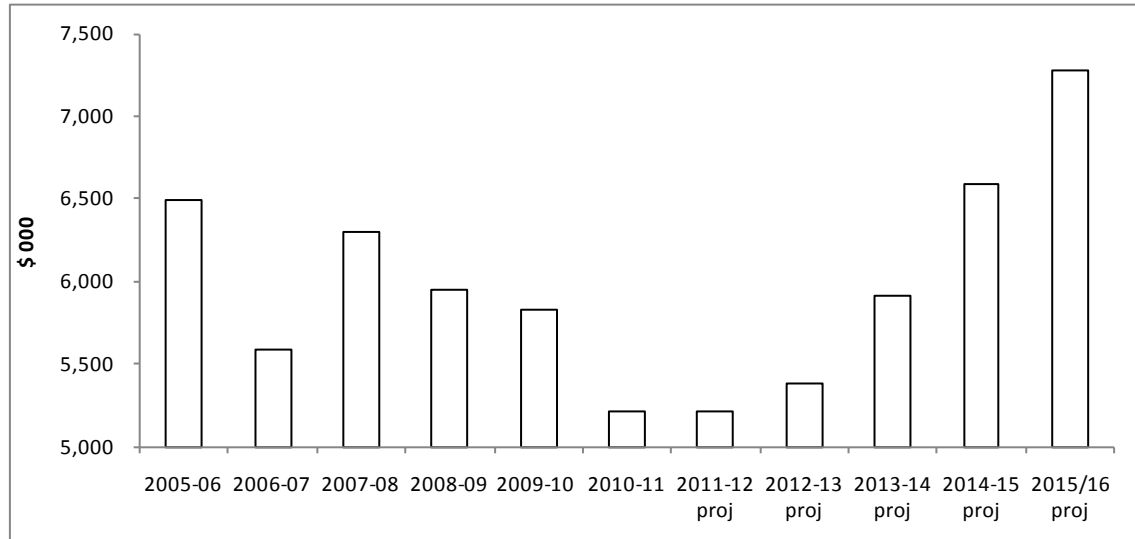
New Zealand continues to be the leading supplier of imports in to the Cook Islands, accounting for approximately 85 per cent of total imports in 2011.

Projections for imports for 2011/12 will continue to be in line with nominal GDP. The expected increase in visitor numbers will place a higher demand for imported produce. A market gap presents itself and moves to fill this demand through local produce will relieve some pressure on the deepening of the trade deficit through import substitution, potentially pulling down the import leakage.

5.8.2 Exports

Total exports for 2011 were \$4.0 million predominantly driven by the export of fresh or chilled fish accounting for 61 per cent of total exports, followed by noni (16 per cent) and pearls (9.3 per cent). In comparison to the same quarter in the previous year, exports have substantially fallen by 45 per cent over 2010 mainly due to the fall in pearl exports.

Chart 5.13 Total exports 2005/06 to 2015/17, (\$'000)



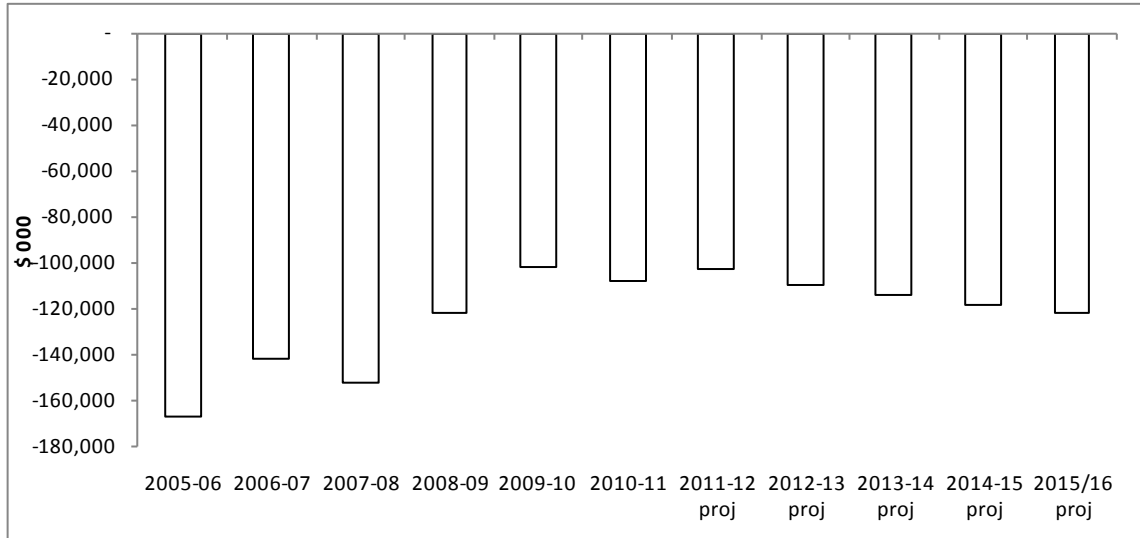
Export projections by year end for each of the export sectors remain the same as the time of the BPS. Overall exports are assumed to contract slightly by 0.1 per cent in 2011/12 before growing by 3.1 per cent, 9.9 per cent, 11.5 per cent and 10.4 per cent over the following three forecast years.

Pearl exports are assumed to remain static for two years before growing to \$1.5 million by 2014/15. Fish exports are expected to grow by 5 per cent per annum right across the forecast horizon, growing the current level of fish exports from \$3.1 million to \$4.0 million by 2015/16.

5.8.3 Balance of Trade (BOT)

A negative trade balance of \$103.7 million is estimated to be reached by close of 2011/12. Going forward this is expected to grow in line with nominal GDP.

Chart 5.14 Balance of Trade 2005/06 to 2014/15, (\$'000)



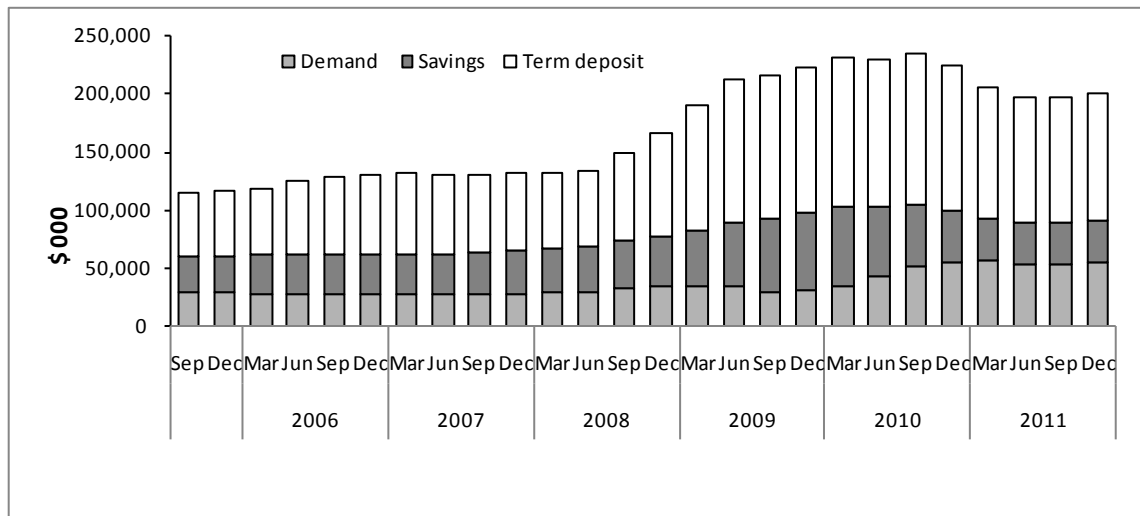
5.9 Banking and Finance

Net foreign Assets (NFA) in the Cook Islands banking sector have increased since the 2011/12 Budget from \$13.6 million in the June 2011 quarter to \$46.4 million in the September 2011 quarter, primarily due to an increase in balances held with domestic banks and finance institutions abroad and a decrease in foreign liabilities.

5.9.1 Deposits

Overall deposits from the December quarter 2011 have increased from \$185.7 million to \$191.7 million in the December 2011 quarter - an increase of 3.2 per cent over this period.

Chart 5.15 Deposits 2005/06 to 2010/11, (\$'000)



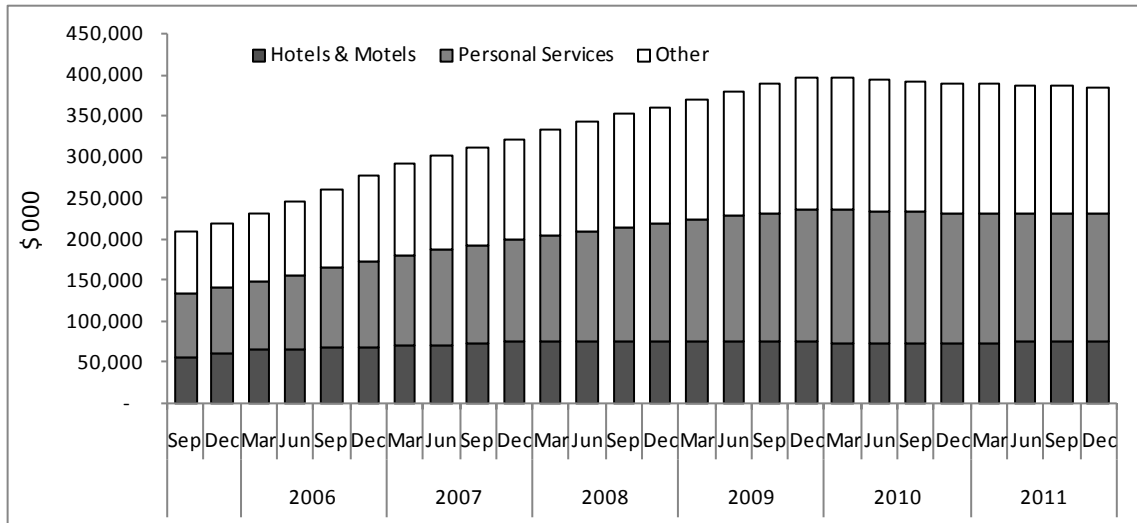
Going forward, deposits are expected to grow in line with nominal GDP.

5.9.2 Loans

The overall value of loans has remained fairly constant since the period at 2004-2008. This likely reflects a tightening of credit by loans in the Cook Islands and debt consolidation by households and businesses.

Total loans are not expected to rise significantly over the forecast horizon but not quite by the level of growth in nominal GDP as the current global economic outlook continues to create impact negatively on confidence levels.

Chart 5.16 Loans 2005 to 2011 four quarter moving average, (\$'000)

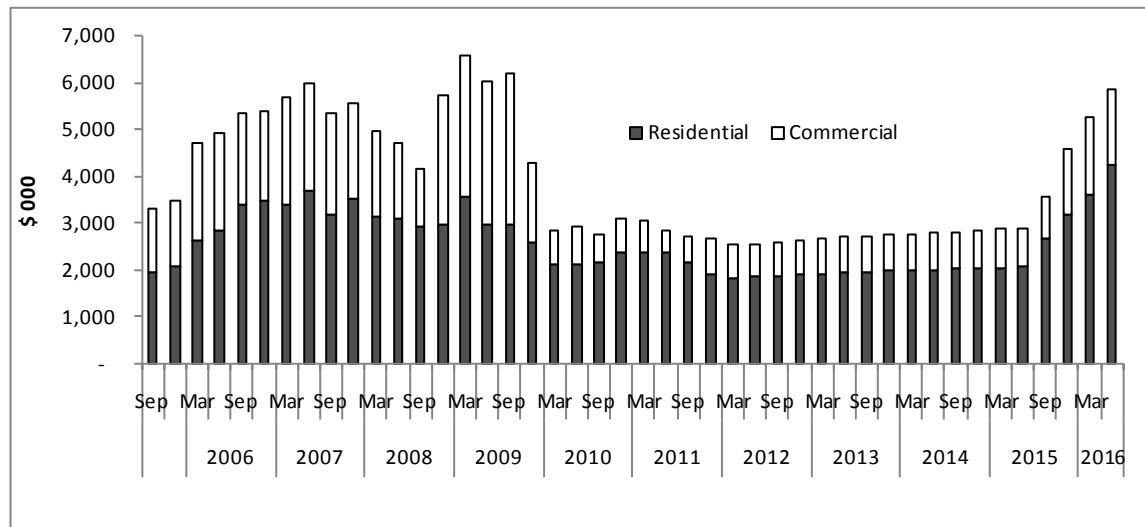


5.9.3 Housing and Construction

The trends and movements in the construction industry indicate a continued subdued level of investor confidence within the economy, resulting in less new developments. Total investments in the September quarter 2011 amounted to \$2.3 million. For the last four quarters residential construction has accounted for 80 per cent of all construction.

Year on year to the September quarter total construction has declined 1.5 per cent indicating a very subdued construction market. Growth is expected to turn positive – in line with growth in nominal GDP.

Chart 5.17 Value of building approvals 2005/06 to 2014/15



5.9.4 Financial Services Industry

The financial services industry is estimated to collect fees to a net value of \$1.3 million for services undertaken in 2011/12.

Fees are generally denominated in USD, which means that income is subject to exchange rate fluctuations. The regulatory arm of the industry estimates 2 per cent annual growth in the number of new international companies, limited liability companies, and trusts registrations which are reflected in the level of fees to be collected in 2012/13 onwards. Foundations will be a new entity available for registration in 2012/13 which will generate modest revenue in addition to the above figure.

5.10 Sensitivity Analysis

The economic forecasts for the Cook Islands do have an element of risk around them, these mainly fall around the tourist activity.

The budget points out two downside risks which lead to reduced GDP.

Scenario one represents reduced growth of GDP in 2012/13 of four per cent, as opposed to five per cent. This is assumed to be driven by reduced tourist expenditure, whilst leaving numbers as they are.

Scenario two represents reduced growth of GDP in 2012/13 to around 3 ½ per cent, which is assumed to be driven by no growth in tourist expenditure.

The sensitivity analysis outlines the impact on Crown revenue, it does not incorporate any changes in Crown expenditure.

Table 5.6 Impact on Crown Revenue of Sensitivity Analysis Scenarios

	2012/13	2013/14	2014/15	2015/16
Scenario 1	3,425	4,270	4,417	4,570
Scenario 2	3,865	5,247	5,425	5,613

6 MEDIUM TERM FISCAL UPDATE

The *Ministry of Finance and Economic Management Act 1995-96* (“the Act”) requires Government to state or reaffirm its long-term objectives for fiscal policy in the annual Budget Policy Statement.

Part III Section 23(2) of the Act sets out the long term fiscal principles to ensure a positive macroeconomic environment for the Cook Islands. These principles as set out in the Act are as follows:

- ensuring that unless Crown debt is at prudent levels, operating expenses will be less than operating revenues (i.e. Government will run an operating surplus);
- achieving and maintaining levels of Crown net worth that provide a buffer against factors which may impact adversely on net worth in the future;
- managing prudently the fiscal risks facing the Crown; and
- pursuing policies that are consistent with a reasonable degree of predictability about the level and stability of tax rates for future years.

Government must pursue its policy objectives within the financial context established by these principles which are quantified in fiscal responsibility ratios (FRR). The FRR are regularly reviewed and establish the parameters for the Budget, with a particular focus on the level of expenditure on Crown debt.

Given the fiscal setting, and in recognition that Government intends to pursue new policy initiatives at each Budget going forward, this Government will carry out the following fiscal policy from 2012/13.

Provisioning Future Budget Allowances

In the 2012/13 Budget Policy Statement the Government outlined its commitment to the creation of a policy reserve. Such a reserve would be established through the Government committing approximately half made of any surpluses through to cash reserves and the other half available for policy initiatives, thereby improving the overall net worth of the Crown.

In 2012/13 all new initiatives have been covered by either reprioritising expenditure or increasing Crown revenue. Additional savings have been required made to cover the increased costs of the underwrite of the Air New Zealand long haul routes from Los Angeles and Sydney to Rarotonga.

Allowing a portion of budget surpluses to flow through to cash reserves

The underlying operating balance surplus of \$0.098 million in 2012/13 to \$1.1 million underlying budget deficit in 2013/14. At this stage, the Government continue to take a conservative fiscal approach to the budget

The significant uncertainty in the global economic outlook. The current European debt crisis could affect two of the Cook Islands' major tourism sources – New Zealand and Australia.

Maintain Fiscal Responsibility Ratios

The original FFR benchmarks were established prior to the move to GFS reporting.

There have been no changes to the FRR benchmarks since the 2011/12 Budget. Performance of each of the FRR's are discussed below. The move to a GFS basis

Some of the ratios have now changed in their nature – for the 2012/13 Budget reporting will be against the previous measures, but the Government may review a new set of fiscal benchmarks which will maintain similar fiscal control whilst incorporating the new GFS reporting framework.

Table 6.1 Fiscal Indicators

	FY11/12 Estimate	FY12/13 Proj	FY13/14 Proj	FY14/15 Proj
Statement of Financial Performance				
Taxation Underlying Revenue (\$m)	88.9	91.9	94.0	96.8
Social Contributions (\$m)	0.1	0.1	0.1	0.1
Other Underlying Revenue (\$m)	19.8	18.7	20.3	20.8
Total Operating Underlying Revenue (\$m)	108.7	110.8	114.6	117.8
Total Underlying Underlying Revenue Percentage of GDP (\$m)	29.4	28.5	28.4	28.2
Tax Underlying Revenue Percentage of GDP (\$m)	24.0	23.7	23.3	23.2
Personnel (\$m)	46.9	47.8	47.2	46.1
Percentage of Total Underlying Revenue	43.2	43.1	41.2	39.1
Provision for New Policy (\$m)	-	-	-	0.6
Total Operating Underlying Expenditure (\$m)	111.3	113.8	115.6	116.5
Percentage of GDP	30.1	29.3	28.6	27.9
Percentage of Operating Underlying Revenue	102.4	102.7	100.9	98.9
Reappropriation of Previous Years Funds for Capital (\$m)	-	3.1	-	-
Underlying Operating Balance (\$m)	(2.6)	0.1	(1.0)	1.3
Percentage of GDP	(0.7)	0.0	(0.3)	0.3
Non Operating Balance (\$m)	(8.0)	(8.7)	(6.3)	(23.6)
Underlying Overall Surplus/(Deficit) (\$m)	(10.5)	(8.6)	(7.4)	(22.3)
Percentage of GDP	2.8	2.2	1.8	5.3
Statement of Financial Position (\$m)				
Assets (\$m)	260.7	291.6	327.3	371.4
Liabilities (\$m)	90.9	95.1	100.3	127.7
Crown Balance (\$m)	169.8	196.5	227.0	243.7
Percentage of GDP	45.9	50.6	56.2	58.3
Statement of Borrowings (\$m)				
Gross Debt end of FY (\$m)				
Percentage of GDP	-	89.0	84.6	80.1
Net Crown Debt, end of FY (\$m)	47.0	71.1	68.0	64.7
Percentage of GDP	12.7	18.3	16.9	15.5
Loan Repayment Reserves Held (\$m)	19.1	17.8	16.6	15.4
Development Partner Support (\$m)				
Grants (\$m)	44.9	47.5	43.9	26.3
Percentage of GDP	12.2	12.2	10.9	6.3
Net Debt Servicing ¹ (\$m)	1.9	3.5	5.3	5.5
Percentage of Total Underlying Revenue	1.8	3.1	4.6	4.6
Memo item: Nominal GDP (\$m)	369.8	388.3	403.8	417.9

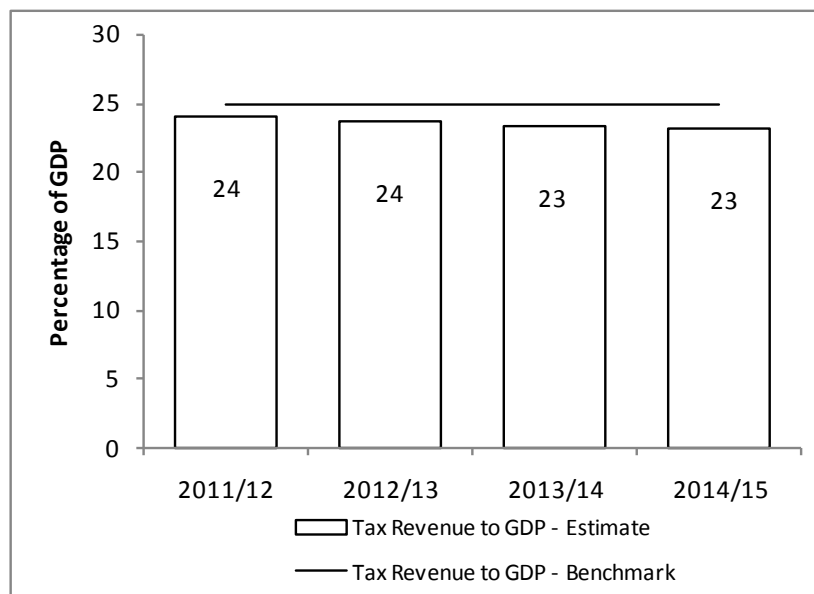
¹ Note change in formula since the Budget Estimates 2011/12. Net Debt Servicing is now net of draw downs of loan reserves used to service SOE debt payments.

6.1 Tax Revenue to GDP

This ratio sets the revenue boundary and ensures the Crown limits the diversion of resources away from the private sector. The agreed benchmark is to limit collections to within 25 per cent of GDP.

It should be noted a major difference between the previous measure of tax revenue and the current GFS is the classification of departure tax as a levy rather than a tax. The expected performance against this benchmark is illustrated in Chart 6.1 below. Government has maintained its tax regime within appropriate limits and this is expected to continue over the medium term, including the changes to import levies.

Chart 6.1 - Tax Revenue to GDP 2011/12 to 2014/15



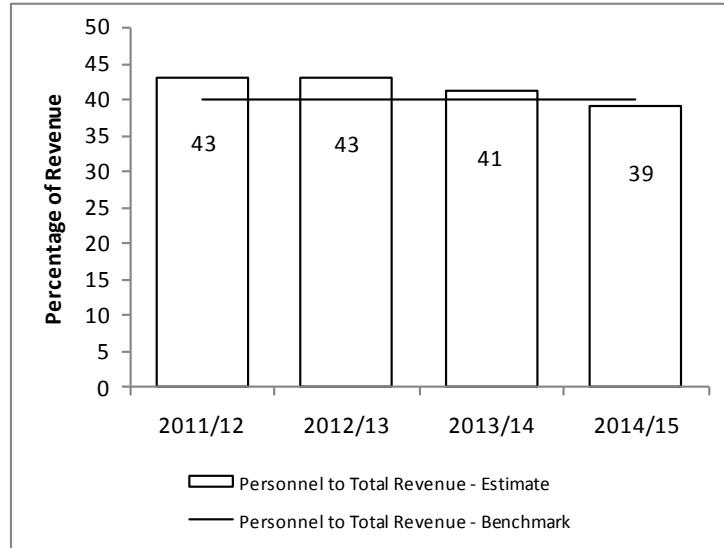
6.2 Personnel to Revenue

This ratio is aimed at controlling the expansion in the size of the public service. The agreed benchmark is maintaining expenditure on personnel within 40 per cent of total revenues.

There is no difference between the previous reporting framework and the GFS framework. Previously, this ratio was being exceeded, with a slow return to the ration arising out of natural economic growth and the assumption of no alteration to the personnel budget.

As Chart 6.2 Government's active decision to reduce personnel by 2 per cent has now bought the ratio back within the levels of the benchmarks established by the FFR.

Chart 6.2 - Personnel Expenditure to Revenue 2011/12 to 2014/15

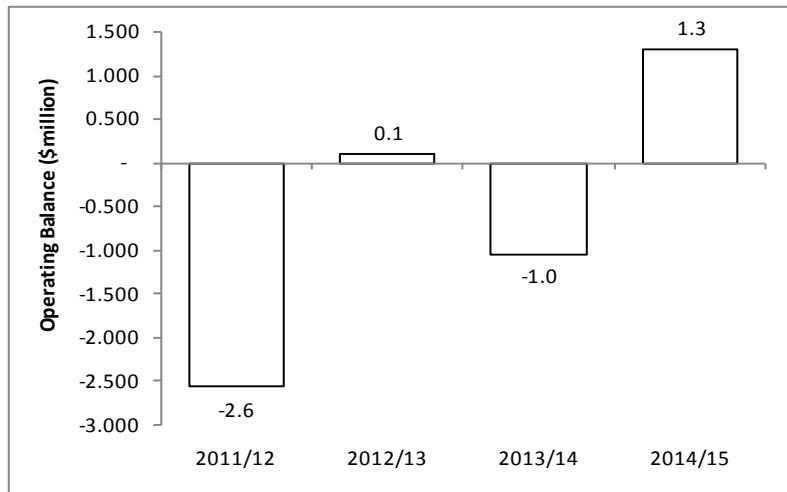


6.3 Operating Balance

Maintaining a positive operating balance indicates that Government is able to afford the operational costs of performing the functions of government from its own revenue streams. Government has set a benchmark of running a operating surplus in each Budget.

As illustrated below, Government is estimated to maintain within this benchmark over the short and medium term.

Chart 6.3 - Operating Balance 2011/12 to 2014/15



6.4 Debt Servicing to Revenue

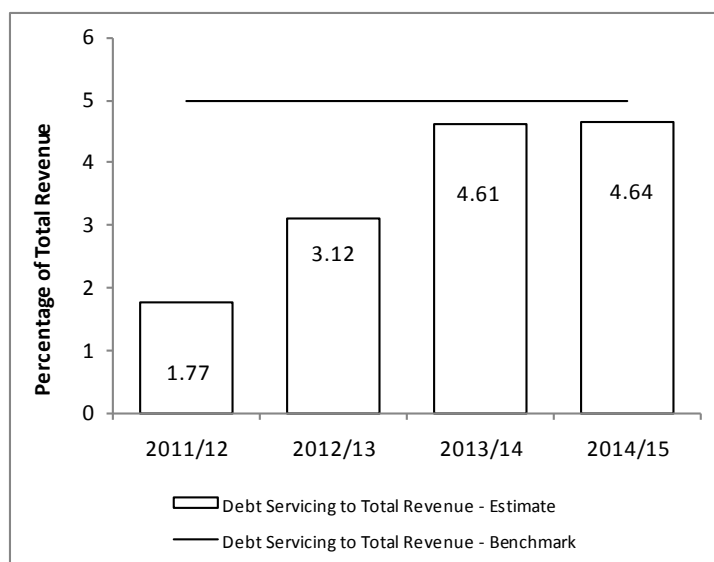
Debt servicing to total revenue measures the ability of the Crown to service its debt obligations from revenue collected. Debt servicing includes both interest, principle, and is now net of draw downs of loan reserves to more accurately reflect the ability the Crown to service its debt obligations. The benchmark set is to maintain within five per cent of revenue.

The presentation demonstrates two measures of debt servicing, gross and net. The net debt servicing payment illustrates gross debt servicing payments less outgoings from the loan reserves which have been built up to service debt.

Government is considering further borrowings and these are discussed in Chapter 9 of the Budget document.

With this amendment to the ratio the level of debt servicing against benchmarks within the short to medium term is maintained within the benchmark as shown in Chart 6.4.

Chart 6.4 - Debt Servicing to Revenue 2011/12 to 2014/15

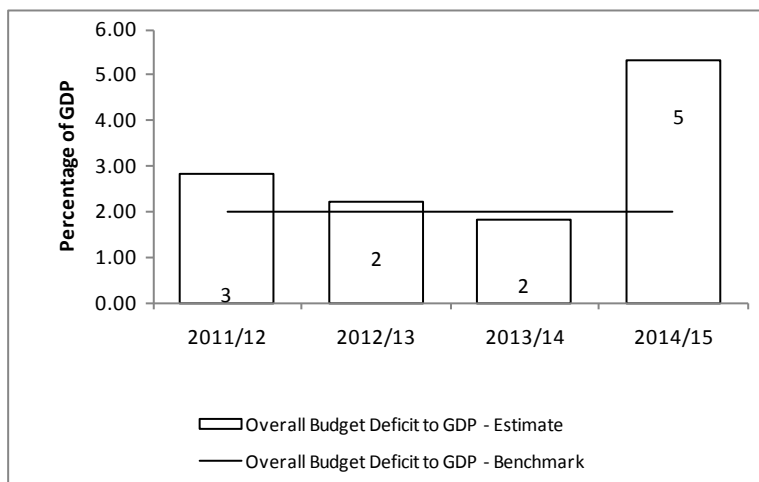


6.5 Budget Overall Deficit to GDP

The overall Budgeted Overall Deficit is the shown in the GFS Framework as the Net Cash Financing Transaction. Where this is a deficit, it must be serviced through lending or depletion of reserve funds. The benchmark is set to be maintained within $-/+2$ per cent to ensure that the Crown does not accumulate debt too quickly, and taken together with the debt servicing to total revenue and net debt to GDP ratios ensures that debt is managed and taken on within

sustainable levels. Chart 5.1.5 illustrates that Government expects to maintain within the benchmark limits over the short to medium term. However, some effort is required in 2014/15.

Chart 6.5 - Budget Overall Deficit to GDP 2011/12 to 2014/15



6.6 Debt to GDP

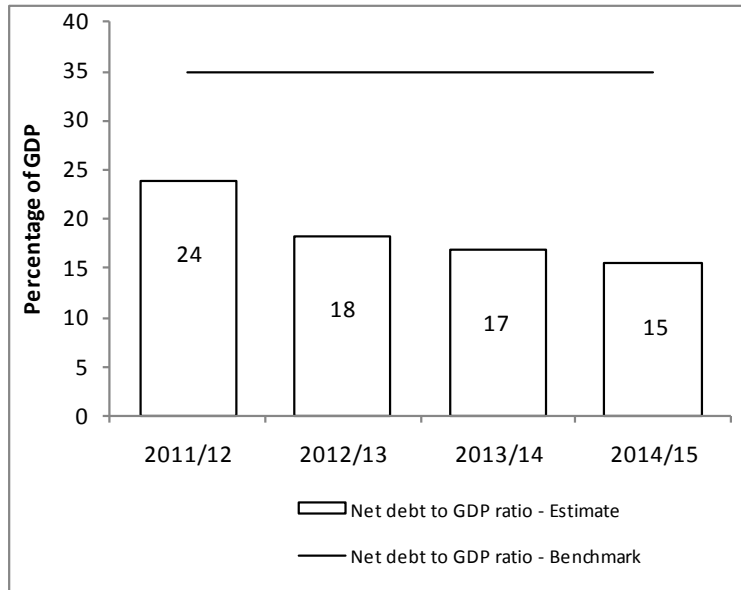
Net debt to GDP measures the level of debt relative to national income and is intended to control the overall level of debt taken on by the Crown. The benchmark agreed to by the Government is to maintain net debt within 35 per cent of GDP, around \$132 million estimated in 2011/12.

The presentation demonstrates two measures of debt, gross and net. The net debt illustrates gross debt less loan reserves which have been built up to service debt.

Government is considering further borrowings and these are discussed in Chapter 10 of the Budget document.

Chart 6.6 illustrates that Crown debt is well within the benchmark over the short and medium term. The significant reduction since the time of the 2011/12 Budget is due to a revaluation of debt based on favourable exchange movements.

Chart 6.6 - Net Debt to GDP Ratio 2011/12 to 2014/15



7 REVENUE

7.1 Total Revenue

The Crown is expected that Crown receipts will total \$158.2 million in revenue in 2012/13, an increase of \$4.5 million on the \$153.7 million expected to be received in 2011/12.

As illustrated in Chart 7.1, taxation provides 58 per cent of revenue, grants from other governments equal to (ODA) provides 30 per cent, and the remainder is from sources such as sales of goods and services, dividends, fines and interest.

The presentation of revenue differs from previous years in terms of the inclusion of ODA and changes to where some revenue items are classified which is consistent with the standards set out in the IMF Government Financial Statistics Manual 2001.

Table 7.1 – Total GFS Revenue 2011/12 to 2014/15 (Transactions affecting Net worth)

	2011/12 Estimate \$'000	2012/13 Estimate \$'000	2013/14 Projected \$'000	2014/15 Projected \$'000
Taxes	88,890	91,922	94,032	96,827
Social Contribution	75	75	75	75
Grants	44,932	47,498	43,879	26,251
Other Revenue	19,783	18,719	20,484	20,910
Total Operating Revenue	153,680	158,214	158,469	144,064
Growth on Previous Year		3.0%	0.2%	-9.1%

Chart 7.1 – Total GFS Revenue 2011/12 to 2014/15 (Transactions affecting Net worth)

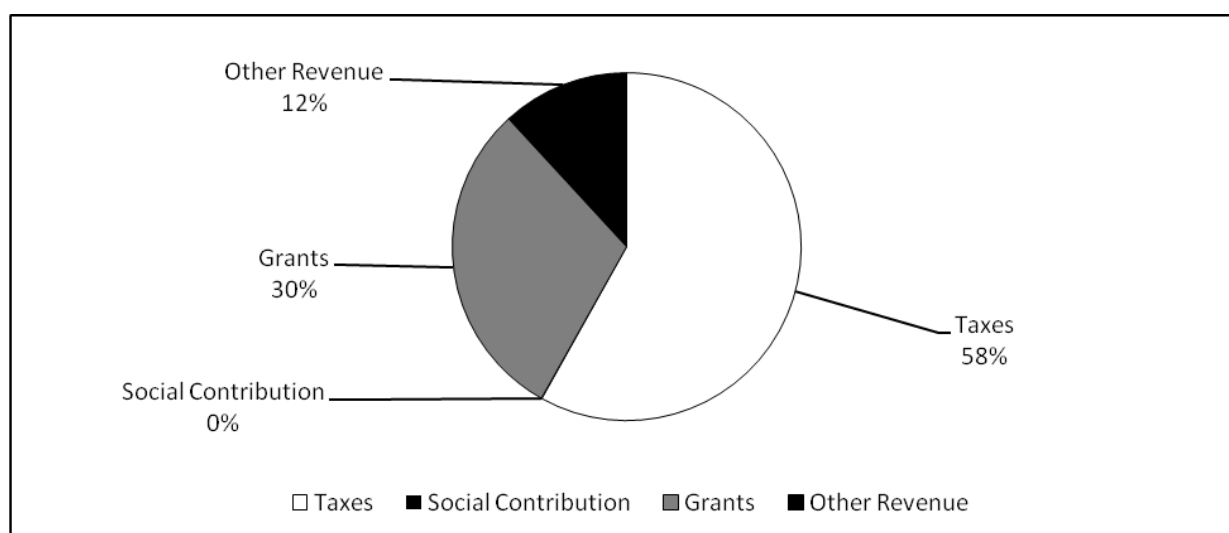


Table 7.2 – Total Underlying Operating Revenue 2011/12 to 2014/15

	2011/12 Estimate \$'000	2012/13 Estimate \$'000	2013/14 Projected \$'000	2014/15 Projected \$'000
Taxation Revenue	92,676	94,871	98,519	101,639
Other Crown Revenue	5,407	6,601	6,516	6,516
Trading Revenue	5,193	5,209	5,209	5,234
Interest on Loans to Subsidiaries	175	203	203	203
Dividends	3,051	2,100	2,170	2,247
Interest on Balances	2,247	1,824	1,824	1,824
Total Operating Revenue	108,749	110,809	114,441	117,662
Growth on Previous Year		1.9%	3.3%	2.8%

Chart 7.2 – Total Operating Revenue 2011/12 to 2014/15

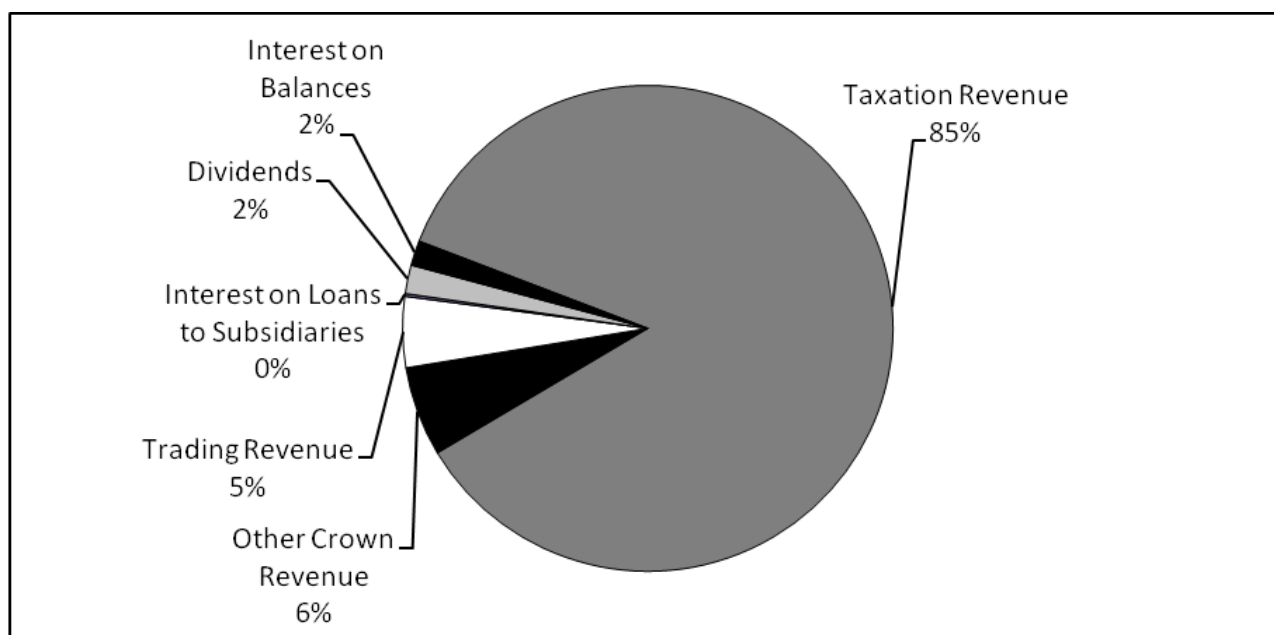


Table 7.3 – GFS in comparison to previous budget standard formats 2011/12 to 2014/15

	2011/12 Estimates	2012/13 Estimates	2013/14 Projected	2014/15 Projected
Revenue - Statement of Fiscal Responsibility	108,749	110,809	114,441	117,662
Plus - Grants	44,932	47,498	43,879	26,251
Less - CISNOC Olympic Cost Reimbursement	0	(93)	0	0
Revenue as per GFS Operating Statement	153,680	158,214	158,319	143,914

7.2 Revenue Initiatives for 2012/13

Changes in revenue since the 2011/12 Appropriation Amendment are made up of two types of changes, parameter changes and policy changes. Parameter changes are the result of factors outside of the immediate control of the Government, where as policy changes reflect the impact of the Government's decisions.

The Government has made the following policy changes, these include

- an increase in departure tax from \$55 to \$65 from 1 July 2013
- a progressive increase in certain alcohol levies from 1 August 2012 through to 1 July 2015
- a progressive increase in tobacco import levies from 1 August 2012 through to 1 July 2015; and
- a progressive increase in the levies applying to sweetened drinks from 1 August 2012.

7.2.1 Increase in Departure Tax

Departure tax is a levy imposed on all people over the age of 12 departing from the Cook Islands. A number changes will be made to the current administration of the levy. The current levy of \$55 on departing passengers must be included in the initial purchase of the ticket for all passengers departing Rarotonga from 1 December 2012. The levy will be increased to \$65 from 1 July 2013; it will then be increased by 2 per cent annually on 1 July to maintain the real value of the levy.

Table 7.4 – Departure Tax Changes for 2011/12 to 2014/15

	2011/12 Estimates	2012/13 Estimates	2013/14 Projected	2014/15 Projected
Departure Tax	\$55.00	\$55.00	\$65.00	\$66.30
Growth on Previous Year		0.0%	18.2%	2.0%

7.2.2 Increase in the Tobacco Import Levy

This initiative is primarily a public health measure aimed at increasing the cost of cigarettes to encourage behavioural change amongst smokers and to discourage the take up of the habit by young Cook Islanders.

Import levies imposed on tobacco products have not been increased for a number of years and are well below similar excises and levies in the region. Recent measures taken by the Governments of New Zealand and Australia have also increased the levies collected on tobacco consumption or reduced the amount of cigarettes which can be bought duty free.

New Zealand will increase tobacco levies by 10 per cent per annum over the next four years; and Australia will reduce the quantity of cigarettes a traveller can bring in to the country duty free from 10 down to two packets.

Import levies on tobacco products will be increased as of 1 August 2012. They will then be progressively increased at 33 per cent per annum until they are at least double the value of the current levy. The import levy will then be increased at 2 per cent per annum to maintain the real value of the levy.

MFEM calculates the impact of the increase in 2012/13 will be to increase a packet of cigarettes will increase by \$2.08, a sufficient price increase to commence deterring smokers.

Table 7.5 – Average Tobacco Levies per kg Cook Islands and New Zealand for 2011/12 to 2014/15

	2011/12 Estimates	2012/13 Estimates	2013/14 Projected	2014/15 Projected
New Zealand	629.99	762.29	838.52	922.37
Cook Islands	279.4	371.6	494.23	657.53
Growth on Previous Year		33.0%	33.0%	33.0%

7.2.3 Increase in Alcohol Import Levy

Current import levies on alcohol have not been increased in some time and have fallen in relative terms and in comparison to other countries in the region.

Import levies on alcohol vary according to the type of beverage and the level of alcohol contained within the beverage. Most alcohol levies will be increased by 15 per cent from 1 August 2012, low alcohol beers will only be increased by 5 per cent to encourage drinkers to drink lower alcohol beers. All alcohol import levies will then be increased by 2 per cent per annum from 1 July 2013 to maintain the real value of the levies.

MFEM calculates the impact of the increase in 2012/13 will be the following:

- of a 750 ml bottle of whisky/rum/ will increase by \$1.86;
- a can of beer by \$0.09; and
- a bottle of wine by \$0.50.

Table 7.6 – Sweetened drinks Import Levy for 2011/12 to 2014/15

	2011/12 Estimates	2012/13 Estimates	2013/14 Projected	2014/15 Projected
Sweetened Drinks (% per litre)	60%	75%	75%	75%
Low Alcohol Beer (% increase in rate)		50%	20%	20%
All other alcohol (% increase in rate)		15%	20%	20%

7.2.4 Increase in Sweetened Drinks Import Levy

This initiative is primarily a public health measure aimed at increasing the cost of sweetened drinks to encourage behavioural change amongst Cook Islanders.

Non communicable diseases continue to be a major challenge and have been identified as the single biggest public health challenge facing the Cook Islands over the medium term. Young people continue to consume higher than recommended quantities of sweetened drinks. The average soft drink contains 36 grams of sugar in a 355ml can, and 250ml high energy drinks contain 27 grams.

Current levies on sweetened drinks will be increased by 15 per cent from 1 August 2012 and increased by 2 per cent per annum from 1 July 2013 to maintain the real value of the levy.

MFEM calculates the impact of the increase in 2012/13 will increase the cost of the average soft drink by around \$0.25.

Table 7.7 Impact of policy changes to Revenue

	2011/12	2012/13	2013/14	2014/15
	\$000	\$000	\$000	\$000
Total Revenue 2011/12 Budget	151,116	154,303	151,801	139,794
Changes in the 2011/12 Budget Supplementation				
Parameter Changes				
Economically driven changes to tax revenue	2,564	2,966	3,855	0
Total Changes to Operating Revenue	2,564	2,966	3,855	0
Total Revenue 2011/12 Budget Supplementation	153,680	157,269	155,656	139,794
2012/13 Budget				
Parameter Changes				
Economically driven changes to tax revenue	-688	-2,094	-1,620	-385
Fishing Licences	0	2,440	2,440	2,440
Total Parameter Changes		346	820	2,055
Policy Changes				
Increase in Departure Tax	0	0	1,379	1,570
Increase in Import Levies	0	599	614	645
Total Policy Changes	0	599	1,993	2,215
Total Changes	0	945	2,813	4,270
Total Operating Revenue 2012/13 Budget	153,680	158,214	158,469	144,064

7.3 Taxes

Taxes are categorized into either direct or indirect taxation. Direct taxation reflects taxes which are imposed directly on the individual, household, property or business, for example, income taxation. Indirect taxes are normally imposed through an indirect method, usually through a transaction, for example, the value added tax.

Table 7.8 – Total Direct Taxation 2011/12 to 2014/15

	2011/12 Estimate \$'000	2012/13 Estimate \$'000	2013/14 Projected \$'000	2014/15 Projected \$'000
Income tax	26,572	26,826	27,579	28,544
Company tax	10,308	11,001	11,204	11,597
Withholding tax	586	900	933	963
Total	37,466	38,727	39,716	41,104
Growth on Previous Year		3.4%	2.6%	3.5%

Chart 7.3 - Total Direct Taxation 2011/12 to 2014/15

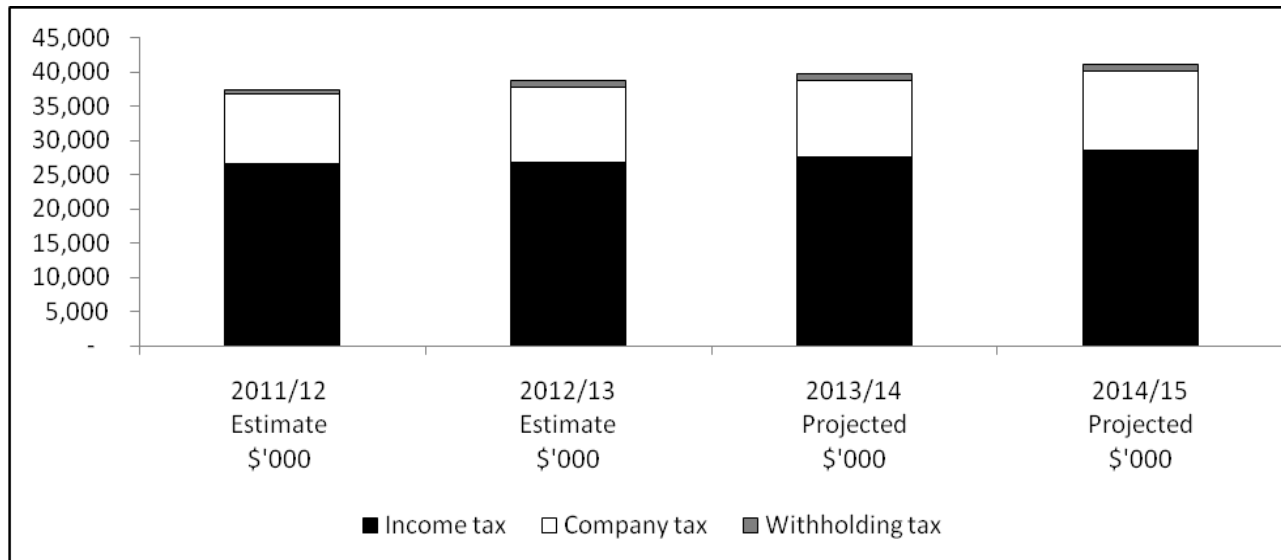
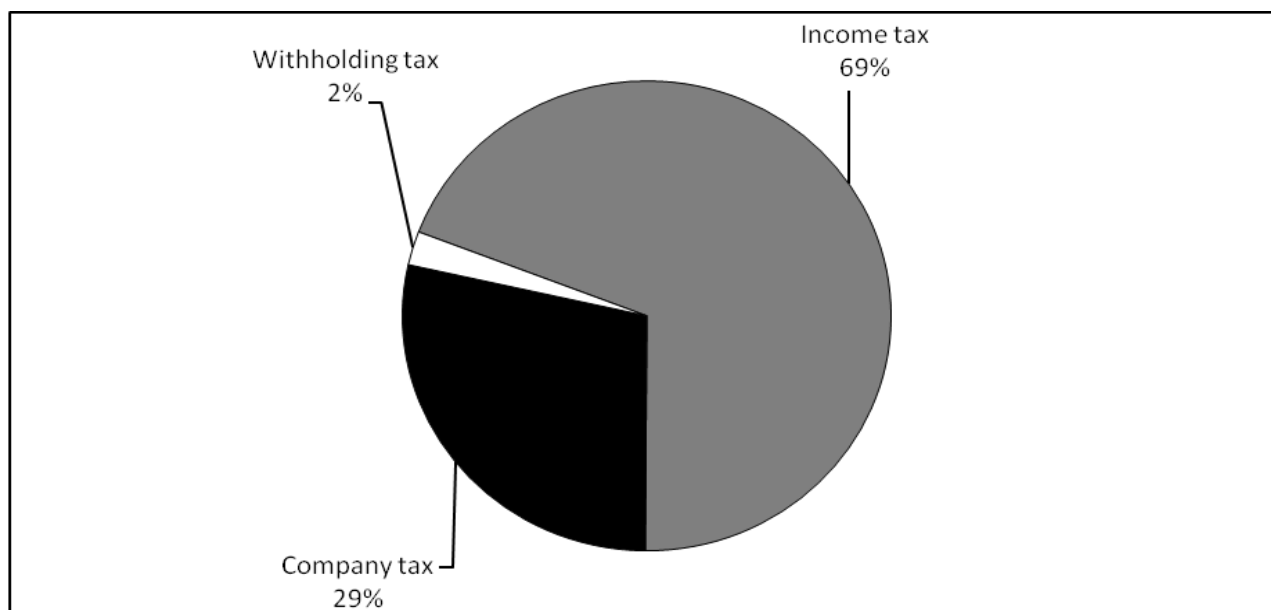


Chart 7.4 - Total Direct Taxation 2012/13



Direct taxation which includes company tax, income tax and withholding tax is expected to grow by 3.4 per cent in 2012/13.

The growth is predominantly due to the full year effect of the withholding tax. Company tax is expected to continue to grow from anticipated economic growth and measures to improve compliance in collecting due taxes from previous years continue to be implemented.

Individual income tax is also expected to benefit from continued economic growth and continued public infrastructure investment which is expected to create employment opportunities such as has been seen with the investment in the Avatiu Port in Rarotonga.

Table 7.9 - Total Indirect Taxation 2011/12 to 2014/15

	2011/12 Estimate \$'000	2012/13 Estimate \$'000	2013/14 Projected \$'000	2014/15 Projected \$'000
VAT	37,010	36,625	37,197	38,199
Import levies	12,030	13,038	13,587	13,994
Motor Vehicle Registration	553	600	600	600
Fisheries - US Treaties	286	486	486	486
Fishing Licences	1,540	2,440	2,440	2,440
Motor Vehicle Dealers	5	5	5	5
Total	51,424	53,195	54,315	55,724
Growth on Previous Year		3.4%	2.1%	2.6%

Indirect taxation is expected to grow by 3.4 per cent in 2012/13 predominantly due to increases in fishing licenses and import levies.

Import levies are expected to grow in line with the economy in addition to the increased revenues resulting from the increase in specific alcohol, tobacco and sweet drinks import levies from 1 August 2012.

Motor Vehicle Registration – \$0.60 million is estimated in revenue is estimated to be received in 2012/13 representing an increase \$0.05 million on the \$0.55 million estimated for 2011/12. This is due an expected increase number of vehicles in the country.

Fishing Licenses – \$2.4 in revenue is estimated to be received in 2012/13 representing an increase \$0.9 million on the \$1.5 million estimated for 2011/12.

An additional twenty fishing licenses are expected to have been assigned to the big-eye tuna and swordfish exploratory program.

At present there are seventeen Chinese fishing vessels which are participating in the big-eye and swordfish exploratory program. The license renewals will be negotiated in December 2012.

In addition, there remain some unallocated slots for fishing licenses under the designated long-line fishery plan, which the MMR expects to be issuing licenses for during the 2012/13. The restructuring of fishing licenses fees, with the reduction of rebate, would allow and increase to revenue; however, draft regulations have yet to be made.

Fisheries US Treaties – \$0.5 in revenue is estimated to be received in 2012/13 representing an increase of \$0.2 million on the \$0.3 million received in previous years. This is due to the current terms of the treaty which have been negotiated and increased to USD45 million from USD21 million for member states.

Motor Vehicle Dealers – \$0.05 in revenue is estimated to be received in 2012/13 representing no change from the amount estimated for 2011/12.

Chart 7.5 - Total Indirect Taxation 2011/12 to 2014/15

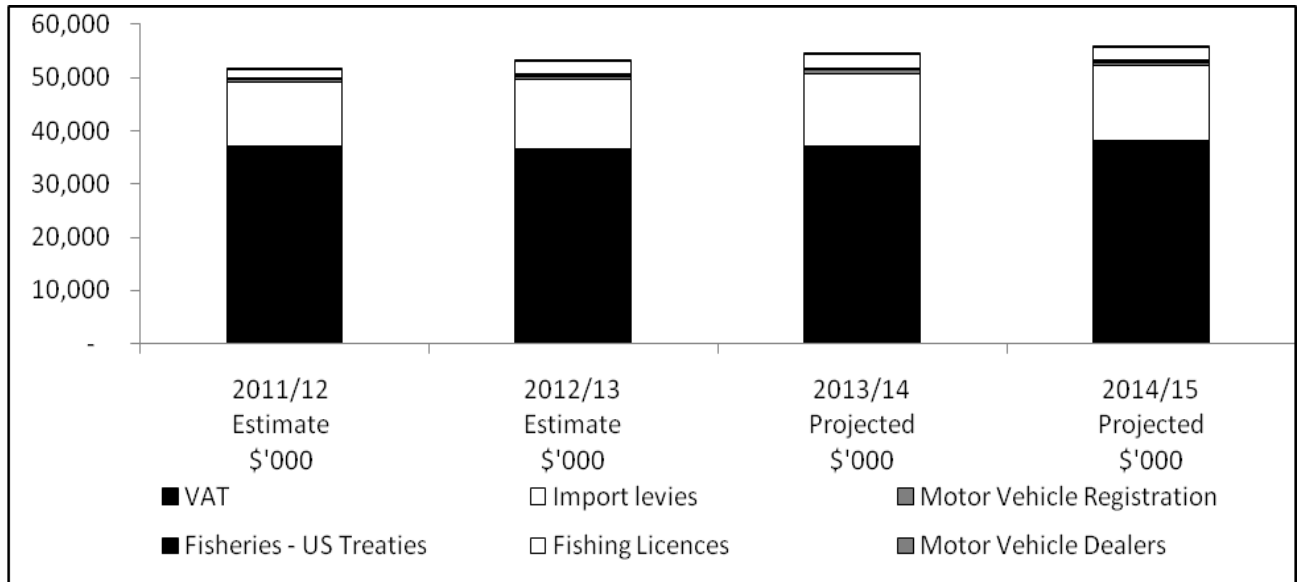
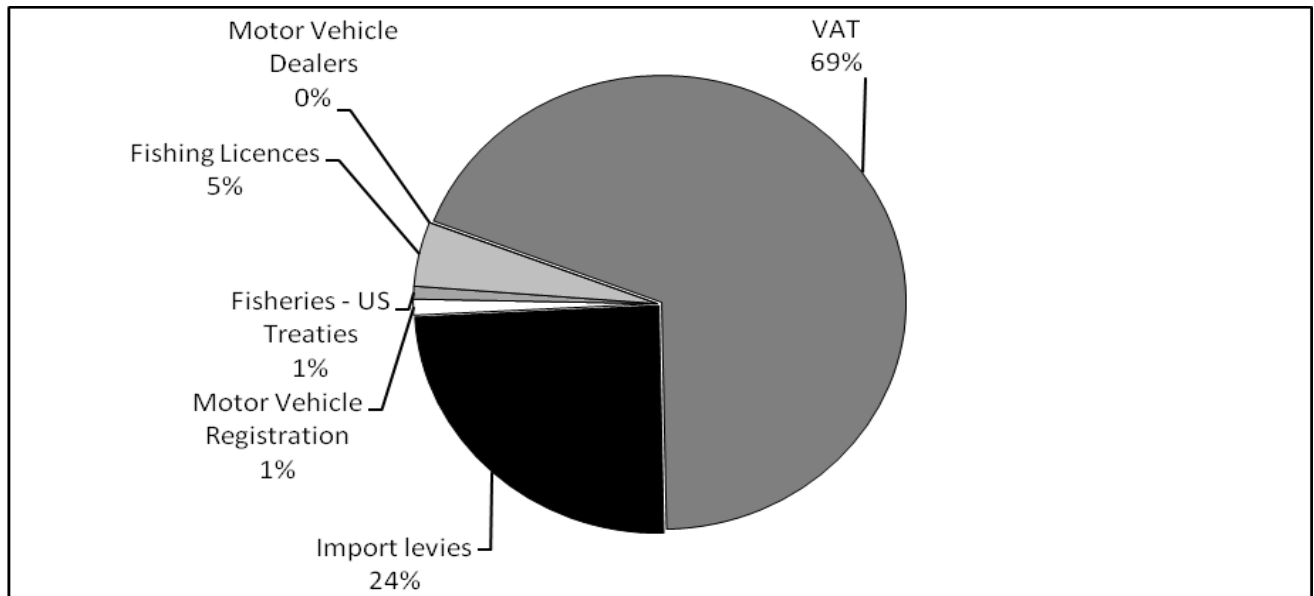


Chart 7.6 - Total Indirect Taxation 2011/12 to 2014/15



7.4 Social Contributions

Social contributions are receipts from either employers on behalf of their employees or from employees that secure entitlement to social benefits for the contributors, their dependents, or their survivors. The contributions may be compulsory or voluntary.

The revenue classified under this category is the Employers Liability.

7.5 Grants

Table 7.10 – Grants 2012/13 to 2014/15

	2011/12 Estimate \$'000	2012/13 Estimate \$'000	2013/14 Projected \$'000	2014/15 Projected \$'000
Current grants from foreign governments	17,591	17,523	12,155	10,736
Capital grants from foreign governments	27,341	29,975	31,724	15,515
Total	44,932	47,498	43,879	26,251
Growth on Previous Year		5.7%	-7.6%	-40.2%

Grants are transfers received by other governments or international organizations, otherwise known as official development assistance. Full details on ODA are contained in Chapter 14 of this book.

7.6 Other Revenue

Table 7.11 – Other Revenue 2012/13 to 2014/15

	2011/12 Estimate \$'000	2012/13 Estimate \$'000	2013/14 Projected \$'000	2014/15 Projected \$'000
Interest	2,422	2,027	2,027	2,027
Dividends	3,051	2,100	2,320	2,397
Administrative fees	13,666	13,870	15,413	15,762
Incidental sales by nonmarket establishments	500	600	600	600
Fines, penalties, and forfeits	127	105	105	105
Miscellaneous and unidentified revenue	17	17	20	20
Total	19,783	18,719	20,484	20,910
Growth on Previous Year		-5.4%	9.4%	2.1%

A specific change to note in other revenue is the classification of the departure tax as an administration fee.

7.6.1 Interest

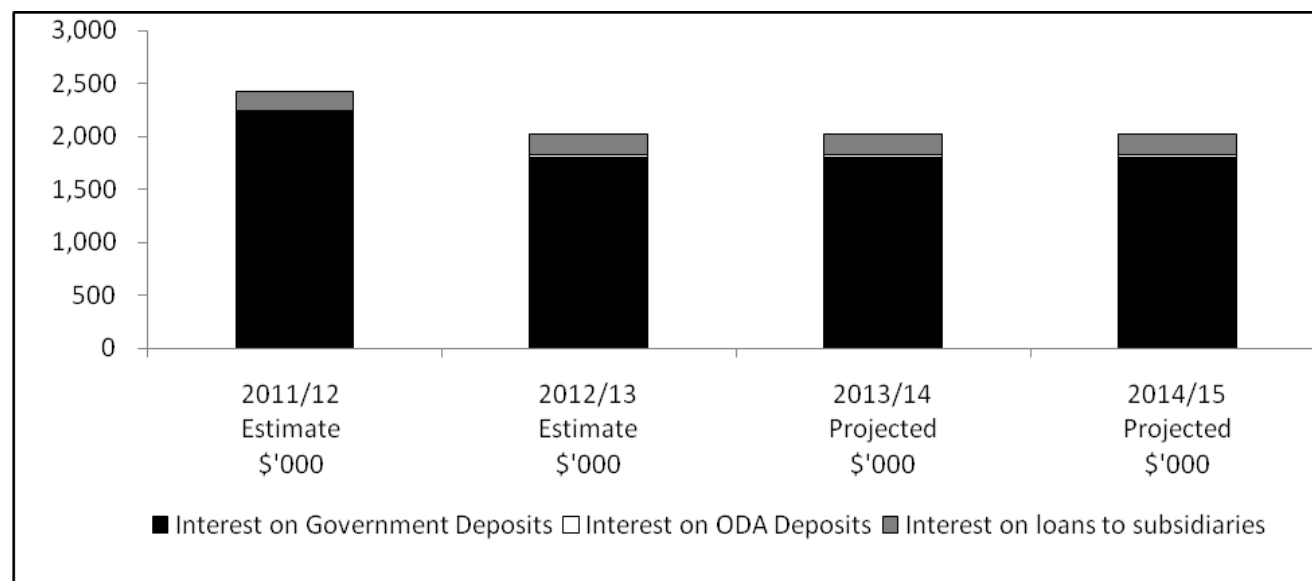
Interest revenue - is estimated to reach \$2.0 million in 2012/13, this is anticipated to remain unchanged for the outer years. This represents a decrease of \$0.4 million on the \$2.4 million expected to be received in 2011/12 as cash balances reduce due to the actual drawdown of the \$14.0 million ADB Economic Recovery Loan (ERL).

Interest on ODA deposits represents all interest earned on development partner bank accounts that are administered by the Development Coordination Division of the Ministry of Finance and Economic Management. These include interest earned on term deposits and development partner operating funds. With the exception of NZ Aid, all interest earned on development partner accounts are returned to the development partner.

Table 7.12 – Total Interest 2011/12 to 2014/15

	2011/12 Estimate \$'000	2012/13 Estimate \$'000	2013/14 Projected \$'000	2014/15 Projected \$'000
Interest on Government Deposits	2,227	1,804	1,804	1,804
Interest on ODA Deposits	20	20	20	20
Interest on loans to subsidiaries	175	203	203	203
Total	2,422	2,027	2,027	2,027
Growth on Previous Year		-16.3%	0.0%	0.0%

Chart 7.7 - Total Interest 2011/12 to 2015/16



7.6.2 Dividends

Total dividends due to the Crown are estimated to reach \$2.1 million in 2012/13. This represents a decrease of \$1 million on the \$3.1 million dividends expected to be received in 2011/12. The decrease is predominantly due to a one off dividend provided by Te Aponga Uira (TAU) 2011/12.

In 2012/13 the Cook Islands Investment Corporation (the parent company) will conduct an SOE reform programme that will also result in the development of a dividend policy to provide both

Government and SOE's a transparency in terms of requirements around dividend levels. Currently, dividend payment levels are determined individually by each SOE.

The Airport Authority has indicated that it will be unable to provide a dividend due to its efforts to quickly repay debt which was taken on for the upgrade of the International Airport.

The Ports Authority has also indicated that it will not be able to provide the Crown with dividend into the medium term due to the ADB loan repayment for the upgrade of the Avatiu International Harbour.

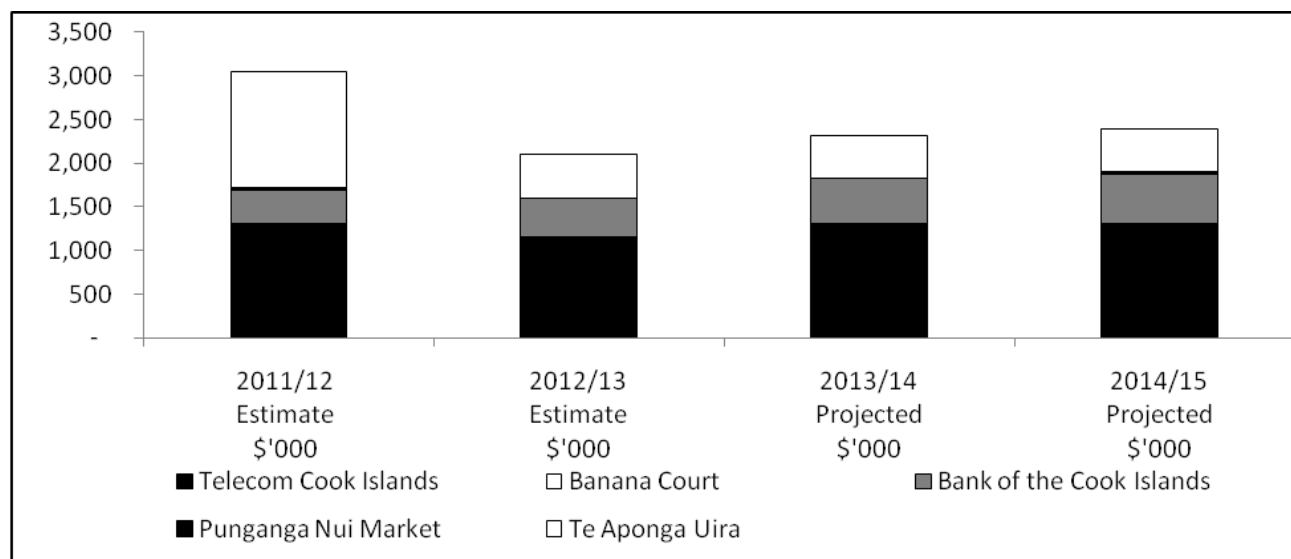
The Bank of the Cook Islands has indicated that it will increase its dividend.

Telecom Cook Islands has notified the Crown that it expects to provide a dividend of approximately \$1.3 million declining to \$1.150 million from 2013/14. Outer years are subject to commercial conditions.

Table 7.13 – Total Dividends 2011/12 to 2014/15

	2011/12	2012/13	2013/14	2014/15
	Estimate	Estimate	Projected	Projected
	\$'000	\$'000	\$'000	\$'000
Telecom Cook Islands	1,300	1,150	1,300	1,300
Airport Authority	0	0	0	0
Banana Court	10	10	10	10
Bank of the Cook Islands	381	440	510	557
Ports Authority	0	0	0	0
Punganga Nui Market	30	0	0	30
Te Aponga Uira	1,330	500	500	500
Total	3,051	2,100	2,320	2,397
Growth on Previous Year		-31.2%	10.5%	3.3%

Chart 7.8 – Total Dividends 2011/12 to 2014/15



7.6.3 Administrative Fees

- Departure Tax – \$6.5 million in revenue is estimated onwards to be received in 2012/13 representing an increase of \$0.03 million on the \$6.2 million estimated for 2011/12. This increase is due to increased numbers of tourists. The increase in 2013/14 onwards is due to the increase in the tax from \$55 to \$65 and the 2 per cent increase per annum.
- Financial Services Commission (FSC) – \$0.30 million in revenue is estimated to be received in 2012/13 representing a decrease of \$0.04 million on the \$0.50 million estimated for 2011/12. The decrease is reflective of a portion of the ROBOC being use to support the merger between FSC and the Financial Intelligence Unit.
- Immigration – \$0.47 million in revenue is estimated to be received in 2012/13 representing an decrease of \$0.07 million on the \$0.54 million estimated for 2011/12. Total fees are anticipated to remain unchanged in the outer years.
- Tattslotto Grants – \$0.12 million in revenue is estimated to be received in 2012/13 representing a decrease of \$0.04 million on the \$0.16 million estimated for 2011/12. Total fees are anticipated to remain unchanged in the outer years.
- Censorship Fees – \$0.01 million in revenue is estimated to be received in 2012/13 representing a decrease of \$0.01 on the \$0.02 million estimated for 2011/12. This is mainly due to the closure of a number of video outlets.
- Permits – \$0.03 million in revenue is estimated to be received in 2012/13 representing a decrease of \$0.03 million on the \$0.06 estimated for 2011/12. This is due to a reduced number of housie permits being issued.

- Drivers License – \$0.63 million in revenue is estimated to be received in 2012/13 representing an increase of \$0.04 million on \$0.59 million estimated for 2011/12. The increase is driven by an expected increased number of visitors to Cook Islands.
- International Shipping License – \$0.01 million in revenue is estimated to be received in 2012/13 representing no change from the estimated amount for 2011/12. Licenses are paid annually at a rate of \$5,000 per ship.
- Liquor License – \$0.03 million in revenue is estimated to be received in 2012/13 representing no change from the estimated amount for 2011/12.
- Upper Air Space Management – \$0.46 million in revenue is estimated to be received in 2012/13 representing an increase of – \$0.04 million on the \$0.42 million estimated for 2011/12. The Cook Islands receives a portion of funds paid by Airlines using the Upper Airspace of four Pacific nations (Samoa, Tonga, Cook Islands and Niue)
- Ministry Trading Revenue – \$5.21 million in revenue is estimated to be received in 2012/13 representing an increase \$0.02 million on the \$5.19 million estimated for 2011/12.

Trading revenue provides a means of recovery for operational costs incurred in delivering services. Compliance, Increase in tariffs and development on new policies and review of old policies has been a contributing factor to the Increase in trading revenue across Ministries.

Table 7.14– Administrative Fees 2011/12 to 2014/15

	2011/12 Estimate \$'000	2012/13 Estimate \$'000	2013/14 Projected \$'000	2014/15 Projected \$'000
Departure tax	6,170	6,481	8,019	8,343
Financial Services Commission	487	293	293	293
Immigration Fees	468	540	540	540
Tattslotto Grants	160	120	120	120
Censorship Fees	24	10	10	10
Permits	56	26	26	26
Drivers Licences	590	630	630	630
Research Fee	1	1	1	1
Shipping Registration	65	70	75	75
International Shipping Licence	10	10	10	10
Liquor Licencing	26	26	26	26
Upper Air Management Agreement	416	455	455	455
Total Trading Revenue	5,193	5,209	5,209	5,234
Total	13,666	13,870	15,413	15,762
Growth on Previous Year		1.5%	11.1%	2.3%

7.6.4 Incidental Sales by nonmarket establishments

Numismatic – \$0.5 million in revenue is estimated to be received in 2012/13 representing an increase of \$0.1 million on the \$0.4 estimated for 2011/12. The increase is due to the extension of the contract with Coins Invest Trust (CIT) for another five years.

Table 7.15 – Incidental Sales by nonmarket establishments 2011/12 to 2014/15

	2011/12 Estimate \$'000	2012/13 Estimate \$'000	2013/14 Projected \$'000	2014/15 Projected \$'000
Circulating Currency - Coins	100	100	100	100
Numismatics	400	500	500	500
Total	500	600	600	600
Growth on Previous Year		20.0%	0.0%	0.0%

7.6.5 Fines, Penalties and forfeits

Court Services – \$0.04 million in revenue is estimated to be received in 2012/13 representing a decrease of \$0.01 million on the \$0.05 million estimated for 2011/12.

Instant Fines – \$0.07 million in revenue is estimated to be received in 2012/13 representing a decrease of \$0.01 million on the \$0.08 million estimated for 2011/12. Decrease in revenue due to increased compliance of motorist with the Transport Act. No changes are expected for the outer years.

Table 7.16 – Fines, Penalties and forfeits 2011/12 to 2014/15

	2011/12 Estimate \$'000	2012/13 Estimate \$'000	2013/14 Projected \$'000	2014/15 Projected \$'000
Court Services	47	40	40	40
Instant Fines	80	65	65	65
Total	127	105	105	105
Growth on Previous Year		-17.3%	0.0%	0.0%

7.6.6 Miscellaneous and unidentified revenue

Foreign Investment fees – \$0.017 million in revenue is estimated to be received in 2012/13 representing no change from the amount estimated for 2011/12

Applications for Foreign Investment are a set fee of \$750 for any application. An expected increase is anticipated in the outer years based on the assumption that foreign investment applicants will increase in 2013/14 when the new investment code is expected to be in force.

Table 7.17 – Miscellaneous and unidentified revenue 2011/12 to 2014/15

	2011/12	2012/13	2013/14	2014/15
	Estimate	Estimate	Projected	Projected
	\$'000	\$'000	\$'000	\$'000
Foreign Investment -BTIB	17	17	20	20
Total	17	17	20	20
Growth on Previous Year		0.0%	13.0%	0.0%

8 EXPENDITURE

8.1 Total Expenditure

Total Crown expenditure will be \$131.5 million in 2012/13, an increase of \$2.5 million on the \$128.9 million estimated to be spent in 2011/12.

The presentation of expenditure differs from previous years so that it is consistent with the standards established in the IMF Government Financial Statistics (GFS) Manual. Table 8.1 presents Crown expenditure in a GFS format.

Overview

Table 8.1– Total GFS Expenditure 2011/12 to 2014/15 (Transactions affecting Net worth)

	2011/12	2012/13	2013/14	2014/15
	Estimates	Estimates	Forecasts	Forecasts
Compensation of employees	46,944	46,674	46,056	46,081
Use of goods and services	44,024	43,251	37,538	36,190
Depreciation	5,753	6,963	8,899	10,900
Interest	969	993	938	839
Subsidies	14,898	16,827	17,143	16,026
Social benefits	13,495	14,066	14,443	14,443
Other expense	2,823	2,677	2,770	2,770
Total Expenditure	128,906	131,452	127,787	127,250

Chart 8.1– Total GFS Expenditure 2011/12 to 2014/15 (Transactions affecting Net worth)

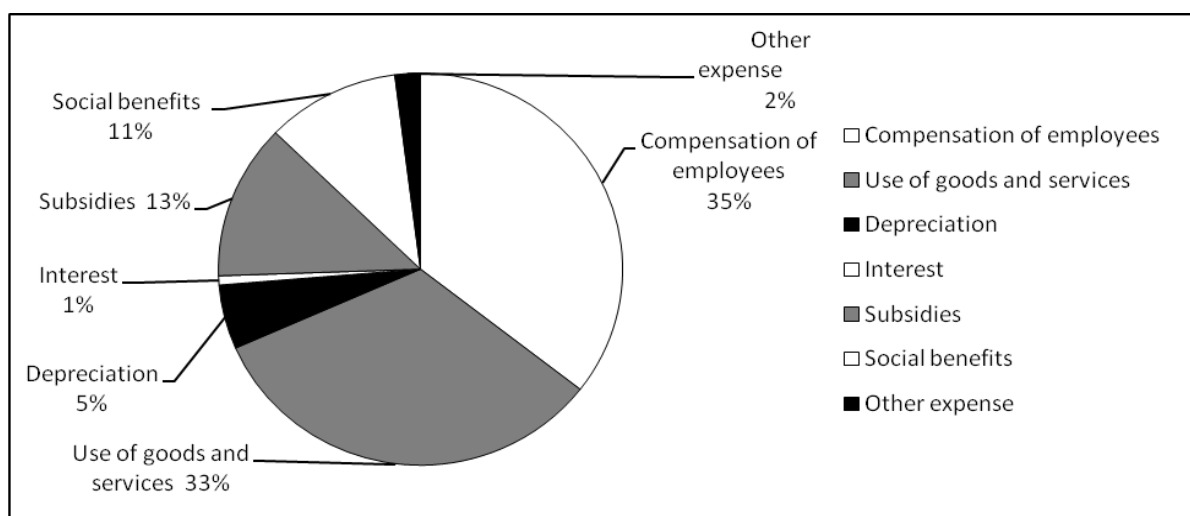
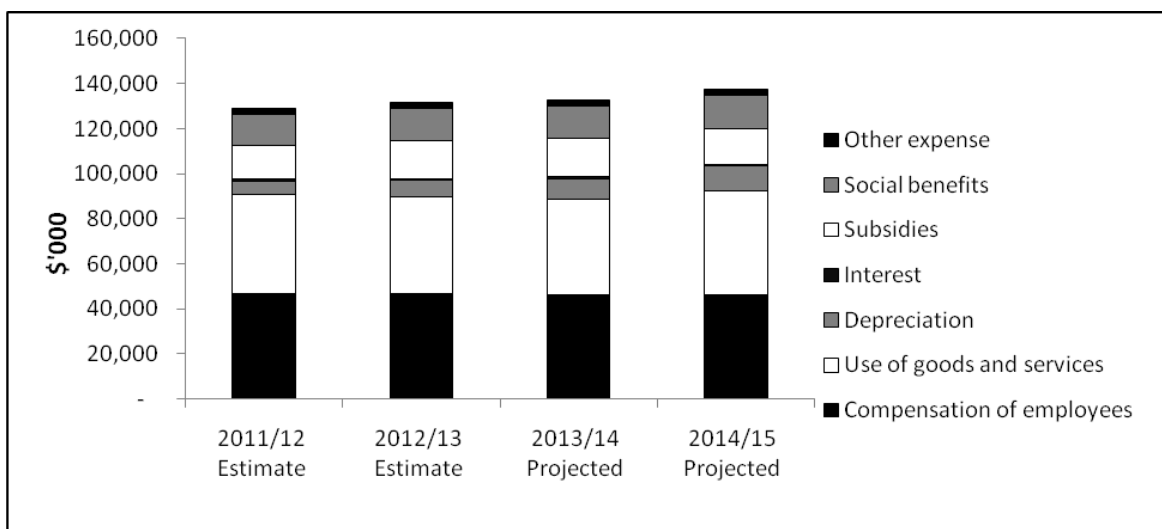


Chart 8.2– Total GFS Expenditure 2011/12 to 2014/15 (Transactions affecting Net worth)



Total expenditure as presented in previous budgets is shown at table 8.2

Table 8.2 –Expenditure Standard Government Operations 2011/12 to 2014/15

	2011/12 Estimates	2012/13 Estimates	2013/14 Projected	2014/15 Projected
Operating Expenditure				
Operating Expenditure				
<i>Ministry Outputs</i>	63,990	61,497	61,760	61,996
<i>Personnel</i>	44,153	42,545	41,992	42,016
<i>Operating</i>	16,552	15,467	15,944	16,015
Depreciation	3,284	3,485	3,825	3,965
Payments on Behalf of the Crown	40,213	43,182	42,615	42,558
Airport Authority	1,704	1,704	1,704	1,704
Upgrades - Feasibility Study	0	206	0	0
Airport Authority - Upgrade VIP Lounge	0	330	0	0
Bank of the Cook Islands	181	181	181	181
Ports Authority - Infrastructure	0	200	1,110	50
Te Aponga Uira	350	350	350	350
Debt Servicing Interest	969	993	938	839
Building Maintenance	1,300	1,800	1,800	1,800
Crown Infrastructure Depreciation	2,469	3,478	5,074	6,935
Contingency Operating Expenses	140	100	100	100
Total Operating Expenses	111,315	114,021	115,633	116,513

The difference between expenditure in Tables 8.1 and 8.2 are the recurrent expenditure by development partners and the one off transaction relating to the reimbursement of CISNOC related expenses relating to the 2012 London Olympic Games.

Table 8.3 – GFS in comparison to previous budget standard formats 2011/12 to 2014/15

	2011/12 Estimates	2012/13 Estimates	2013/14 Projected	2014/15 Projected
GFS Expenditure	128,906	131,452	132,833	137,367
Donor	44,932	47,498	43,879	26,251
CISNOC	0 -	93,000	0	0
Total Operating	106,079	111,316	114,022	115,632

Chart 8.3 – Total Operating Expenditure 2011/12 to 2014/15

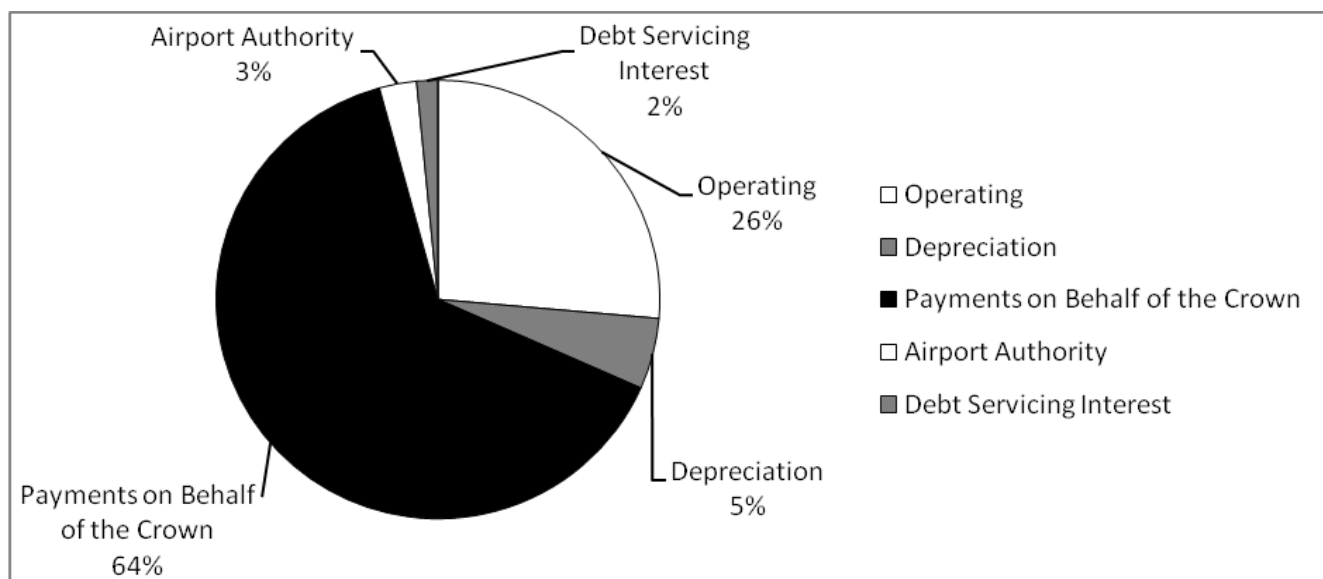
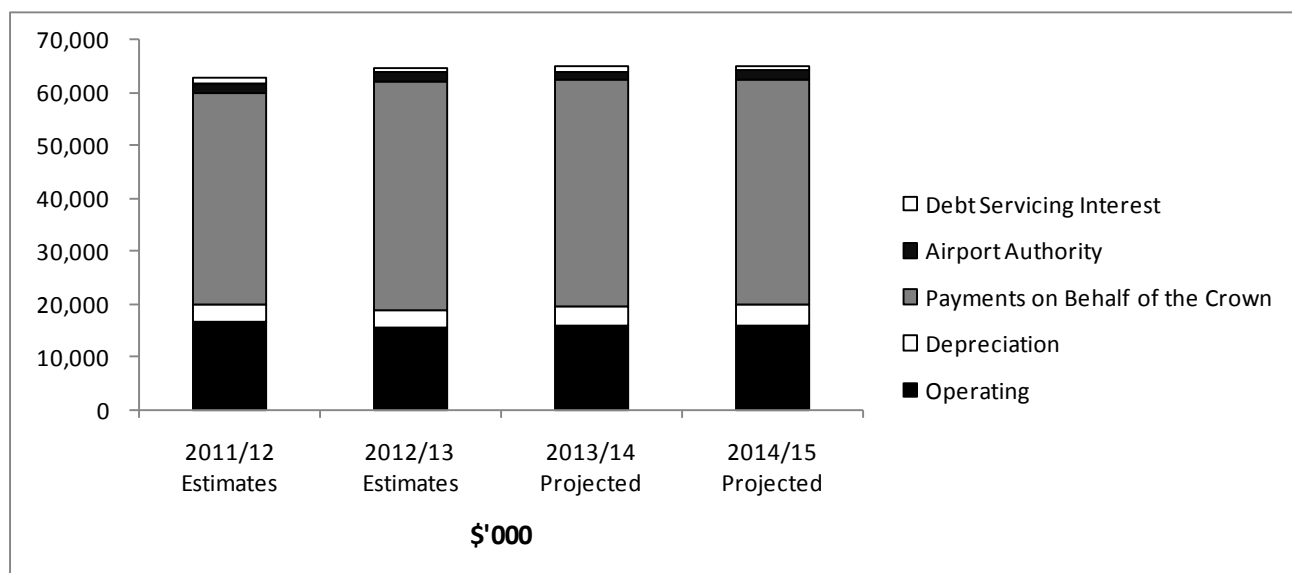


Chart 8.4 – Total Operating Expenditure 2011/12 to 2014/15



Changes in expenditure result from either:

- policy decisions undertaken by the Government; or
- movements that occur outside of a decision through short term action by the government. For example, these would include depreciation, movements in welfare beneficiary numbers.

Since the 2011/12 Budget changes to baseline expenditure for the period 2012/13 to 2014/15 have occurred both as the result of the Government policy and by parameters which are directly outside of the control of the Government.

Table 8.4 demonstrates the impact of policies and parameter changes on the level of expenditure in the budget.

Overall, the net impact is a reduction of \$0.225 million on the estimate for expenditure in 2012/13 at the time of the 2011/12 Budget. The major change outside the immediate control of the Government was the increase in cost of the underwrite which in 2012/13 was estimated to be \$10 million but increased to \$13.6 million due predominantly to increased fuel costs. Government has taken policy decisions totaling \$1.6 million in 2012/13 and remains at constant levels in 2014/15.

To offset these savings measures totaling \$3.4 million in 2012/13 declining to \$3.2 million in 2013/14, a more detailed breakdown of these changes is provided in Table 8.4

Table 8.4 – Changes to Operating Expenditure 2011/12 to 2014/15 (excludes ODA)

	2012/13	2013/14	2014/15
	\$000	\$000	\$000
Total Expenditure 2011/12 Budget	113,387	119,069	126,063
Changes in the 2011/12 Budget Supplementation			
Parameter Changes			
Air NZ Underwrite Top-up*	3,600	3,600	3,600
Total Parameter Changes	3,600	3,600	3,600
Policy Changes			
New Manihiki Environment Officer	17	17	17
Governance Oversight Unit in Parliament	40	60	60
House of Ariki	65	0	0
CISNOC Olympic Games Attendance	-93	0	0
Lease Extension PSC/Interanal Affairs Offices	36	36	36
Operation Eagle Court Case	70	0	0
Total Policy Changes	135	113	113
Total Changes to Operating Expenditure 2011/12	3,735	3,713	3,713
Budget Supplementation			
2012/13 Budget			
Parameter Changes			
Depreciation Adjustments	102	99	53
Total Parameter Changes	102	99	53
Policy Changes			
Special Reviews Manager	58	58	58
Legal Executive Position	48	48	48
Consulate General	70	70	70
Continental Shelf deliberations	66	66	0
Protocol Services	5	0	0
Centralising Pa Enea Financial Services	65	65	65
Localizing Climate Change	66	106	106
Job sizing	88	88	88
Special Needs Teacher	19	19	19
Subsidy for Depreciation for FSC	50	35	35
Outer Island Shipping and Freight	100	0	0
Pacific Leaders Forum	500	0	0
Seabed Minerals Commission	320	320	320
Increase Old Age Pension (70+)	416	436	468
Introduction to Paid Maternity Leave	49	246	246
Commonwealth Parliamentary Association	150		
Select Committee Support Services Unit	15	15	15
Decrease in Crown Law Rental	-57	-57	-57
Personnel savings of two per cent	-703	-703	-703
Long Service Bonus	-200	0	0
POBOC's	-1,860	-1,860	-1,860
Operating savings of five per cent	-627	-627	-627
Total Policy Changes	-3,447	-3,248	-3,248
Total Changes from 2011/12 Budget	389	565	519
Total Operating Expenditure 2012/13 Budget	113,776	119,634	126,582

8.2 New Expenditure Initiatives

The Government has approved new spending initiatives totaling \$2.1 million in 2012/13, declining to \$1.6 million in 2013/14 due to some initiatives having a one off impact in 2012/13. Further details on each of the initiatives are provided further on.

Table 8.5 New Expenditure Initiatives

Ministry	Description	2012/13	2013/14	2014/15	Total
Audit	Special Reviews Manager	58,000	58,000	58,000	174,000
Crown Law	Legal Executive Position	48,442	48,442	48,442	145,326
MFAI	Consulate General	70,000	70,000	70,000	210,000
MFAI	Continental Shelf deliberations	66,000	66,000	0	132,000
MFAI	Protocol Services	5,000	0	0	5,000
MFEM	Centralising Pa Enea financial services	65,000	65,000	65,000	195,000
OPM	Localising Climate Change	65,500	106,000	106,000	277,500
All	Job sizing	87,789	87,789	87,789	263,367
Palmerston	Special Needs Teacher	18,538	18,538	18,538	55,614
MFEM	Subsidy for Depreciation for FSC	50,000	35,000	35,000	120,000
Transport	Outer Island Shipping and Freight	100,000	100,000	100,000	300,000
MFAI	Pacific Leaders Forum	500,000	0	0	500,000
MMR	Seabed Minerals Commission	320,000	320,000	320,000	960,000
INTFAFF	Increase Old Age Pension (70+)	400,000	400,000	400,000	1,200,000
INTFAFF	Introduction of Paid Maternity Leave	49,000	246,000	246,000	541,000
Parliament	Commonwealth Parliamentary Association	150,000	0	0	150,000
Parliament	Select Committee Support Services Unit	15,000	15,000	15,000	45,000
Total		2,068,269	1,635,769	1,569,769	5,273,807

Special Reviews Manager

The Special Reviews Manager will be responsible to the Director of Audit and will be in charge of managing the staff and work programme of the Special Reviews and Investigation division. The Manager will liaise with the Director and PERC to ascertain annual work programme of the Special Reviews and Investigation division.

Duties include planning the coordinating the work programme of the special reviews division, supervising the work of special reviews and performance auditors, gather evidence and analyse data with a view to forming opinions and making recommendations, preparing and documenting working papers to the required quality standard, write special reviews and performance audit reports to the required standard, provide training and feedback to auditors on areas requiring improvement, assist in the representation and promotion of the CIAO and individual audit products to client agencies and external bodies and assist with additional tasks and responsibilities as directed by Management.

Legal Executive Position

As the Cook Islands have developed economically and the business community has grown the risk of litigation against the Crown has increased significantly. Contracts and legal documents are more complex, relationships around the globe are deepening and the economic links around the world increasing in number and value. Consequently legal advice requires Counsel to have skills and experience in areas of law other than those that traditionally the Crown Law Office has delivered.

In addition to addressing the standard of legal advice given by Counsel there is an inherent need for expert support personnel. Internationally legal executives are qualified with tertiary Legal Executive diplomas. The legal executive is the paralegal whose task is to support their instructing Counsel by providing quality legal documents across the spectrum. The legal executive attends to the tasks that the Counsel is not necessarily required to attend to by law, such as preparing witness affidavits on instructions from Counsel but a legal executive cannot certify documents.

Consulate General

The position of the Auckland Consul-General has been vacant since 2007 and the Office has been operating with only an officer-in-charge, carrying out only basic, daily functions (e.g. providing information and assistance to those contacting the Consulate-General) as required.

A Consul-General will be appointed to head the Consulate-General, his/her main responsibilities to include promoting relations between Government and local government bodies and community groups in New Zealand, and the private sector as appropriate, as well as assisting the Cook Islands private sector to develop beneficial commercial, trade and other links with interests in New Zealand.

Efforts will continue to locate new, more suitable accommodation for the Consulate-General in Auckland, further information on the sale of the Symonds Street building is contained in the asset sales chapter.

Participation in UN Commission on the Limits of the Continental Shelf deliberations

Under Articles 76 and 77 of the United Nations Convention on the Law of the Sea (UNCLOS), coastal States are entitled to claim sovereign rights over the natural resources of the continental shelf beyond the 200-mile exclusive economic zone (EEZ), subject to certain geological criteria being met. Claims to the extended continental shelf (ECS) must be endorsed by the UN Commission on the Limits of the Continental Shelf.

Following a detailed examination of the information available, in April 2009, the Cook Islands submitted to the Commission a claim to an ECS enclosing an area of approximately 413,000 sq km to the north of the Cook Islands' EEZ. Advice has been received from the Commonwealth Secretariat, which is advising Government on the matter, that the Cook Islands claim will be

heard twice in 2012-2013, the first likely in September 2012 and the second in March 2013, each hearing to take place in New York over a period of approximately five working days.

It will be necessary for a minimum of three persons to travel from Rarotonga to New York to present the Cook Islands submission, respond to questions from the Commission, and basically to argue the merits of the Cook Islands' claim. Those three persons (including perhaps one Minister) would deal with policy, legal and technical issues regarding the claim.

Protocol Services

The marked increase in Government relations with other countries and organisations have placed pressure on the resources associated with protocol services. Additional resources will be provided to meet the rising costs of providing the additional airport and protocol services for VIPs and Government dignitaries.

Centralising Pa Enua Financial Services

The main goal of this initiative is to centralise the accounting function within MFEM in order to control and manage the reporting of information from the Outer Islands. A contributing factor to the delay in timely financial management reporting is the late and inadequate reporting by the Outer Islands.

Unfortunately, many of these administrations generally lack suitably qualified staff to produce their annual and monthly accounts in a timely and adequate manner. Some of the reporting is technical and often requires someone who has some experience and qualifications in accounting. In this regard, MFEM would produce relevant and timely reports for these Islands (monthly, annual, and any others as required).

Localising Climate Change

Cabinet endorsed the establishment of a climate change unit within the Office of the Prime Minister.

With financial support from PASAP Climate Change Cook Islands began operation in late September with the recruitment of the Director, funding support is up until December 2012. During this time, suitable staff will be recruited; a fully functional office will be in place to commence coordinating government climate change related activities and a climate change policy will be developed.

After December 2012, the Crown is expected to assume funding of Climate Change Cook Islands. In addition, Climate Change Cook Islands will work closely with EMCI to coordinate the Joint National Action Plan for Disaster Risk Management and Climate Change Adaptation (JNAP). This is our roadmap to building a resilient Cook Islands to Natural Disasters and Climate Change issues.

Job sizing

These extra funds are being provided to various Ministries to accommodate to ensure that all public servants are being paid to at least the minimum of their bandings. In many circumstances this has occurred due to restructuring changes and resizing of existing positions, correction to job sizing bands as a job descriptions reviews which have occurred to reflect core responsibilities of staff in certain ministries.

Special Needs Teacher

Palmerston is required by the Government to provide education for a child with special needs. This teacher's aide will work primarily (20 hours per week) with this child and will also be used in the school as a teacher with the rest of the students (15 hours per week).

Centralising Heads of Ministries Salaries in the Office of the Public Service Commissioner

From 1 July 2012 salaries for Heads of Ministries will be centralised with the Office of the Public Service Commissioner through a dedicated POBOC. The transfer of these expenses from Ministries will relieve the pressure on Ministry budgets and better align remuneration and performance of the HoM which is managed by Public Service Commissioner.

Commonwealth Parliamentary Association (CPA)

The Parliament of the Cook Islands will be hosting a conference in November 2012 and this will cover cost associated with printing, rental vehicles, venue, equipment, evening functions hosted by the Government, the Speaker and daily meals for delegates during the session.

Select Committee Support Services Unit

The budget reflects Governments commitment to establishing the Select Committee Support Services unit to initially support the Parliament in scrutinising the Government on various aspects of public finances, this would include audit reports, finance reports of the various entities of the Crown and the budget of the Government as presented to Parliament

8.3 Savings

The Government has identified total ongoing savings totalling to \$3.4 million in 2012/13.

Table 8.6 – Savings in Expenditure

Savings	2012/13	2013/14	2014/15	Total
Decrease in Crown Law Rental	-57,000	-57,000	-57,000	-171,000
Personnel savings of two per cent	-703,268	-703,268	-703,268	-2,109,805
Long Service Bonus	-199,772	0	0	-199,772
POBOC's	-1,860,484	-1,860,484	-1,860,484	-5,581,452
Operating savings of five per cent	-626,824	-626,824	-626,824	-1,880,473
Total Savings	-3,447,349	-3,247,577	-3,247,577	-9,942,503

Personnel Savings

As at March 2012 the Crown was under spent by two per cent in personnel. Government has now sought to embed these savings in agency budgets. This is not intended to reduce the current number of filled positions in the public service, rather this takes account of actual personnel under spends in this current year, whilst also taking into account long term vacancies that currently exists that forms part of ministry personnel baseline budgets.

Decrease in Crown Law Rental

The savings in Crown Law rental reflect the re-location to Crown owned premises formerly occupied by the Financial Intelligence Unit (which has now been merged with the Financial Supervisory Commission) in 2012/13, these rental costs will no longer be required.

Long Service Leave Bonus

Government is reviewing the replacement of the Long Service Bonus following the three year anniversary of public servants.

The Office of the Public Service Commission has been directed by Cabinet to review this provision with a view to recommending alternative options that will replace the monetary compensation to public servants. The Government has therefore identified \$0.200 million savings in Long Service Bonus adjustments in ministries personnel baseline budgets.

POBOC Savings

A total of \$1.9 million has been identified as POBOC savings as result of budget efficiencies which are explained in further detail in the POBOC section 8.3.

Savings in Goods and Services Expenditure

Government has sought from agencies a five per cent reduction in the use of goods and services. These savings will be left to agencies to decide on the most appropriate implementation strategy.

8.4 Details on Operating Expenditure

Operating expenditure refers to expenditure on the delivery of government's core outputs by the public service. Operating Expenditure is predominately made up of compensation of employees (35 per cent), use of goods and services (33 per cent), subsidies (13 per cent), social benefits (11 per cent) and other operating expenditure (8 per cent). Total operating expenditure is estimated to come in at \$131.5 million for 2012/13, taking into account a \$2.5 million increase from the time of the Appropriation Amendment 2011/12.

Compensation to Employees (formerly Personnel)

The compensation to employee's expenditure estimated for 2012/13 has reduced to \$46.7 million, this represents a \$0.270 million reduction in comparison to the Appropriation Amendment 2011/12. The minor reduction is predominantly a result of the classification of 2 per cent savings in ministry personnel baseline budgets. These savings should have a minimal impact on Ministry Personnel. As at March 2012 expenditure in this category was 2 per cent below budget.

Use of Goods and Services (formerly operating expenditure)

The total operating expenditure estimated for 2012/13 has been reduced to \$43.2 million, this represents a \$0.773 reduction below the Appropriation Amendment 2011/12. Overall this represents a 5 per cent operating savings from Ministry baseline budgets to improve cost saving efficiencies in the public service. Heads of Ministries will be responsible for alleviating these savings to their budgets. It is expected that such savings would arise from administrative spending and corporate overheads.

Consumption of Fixed Capital (formerly Depreciation)

Total depreciation for 2012/13 is estimated at \$6.9 million, accounting for a \$1.2 million increase as a result of the purchase of new assets by agencies and increased investments in capital by the Crown.

Debt Servicing Payments

Debt servicing payments incorporate both interest and principal payments for 2012/13 are estimated to be \$4.5 million, an increase of \$0.564 million on 2011/12. Further information on debt and associated servicing payments are contained within Chapter 10.

8.5 National Service Obligations and Other Payments to SOE

Ports Authority

The Ports Authority continues to accommodate the National community service obligation responsibilities. The following Community Service Obligations (Social Responsibility) costs were incurred for Rarotonga and Aitutaki;

Table 8.7 – Government National Service Obligations

Rarotonga	2012/13	2013/14	2014/15
Reoccurring	52,664	52,664	52,664
Approved Waived Port Charges	111,748	111,748	111,748
Total	164,412	164,412	164,412
Aitutaki			
Approved waived Charges	35,289	35,289	35,289
Total	\$35,289	35,289	35,289
Overall Total Community Service Obligation Cost at year end 30 June 2011	199,701	199,701	199,701

Total National service obligation as at 30 June 2011 \$199,701 was absorbed into the Ports operations costs instead of the Government Crown appropriation in the national budget. The ongoing community service obligations are of concern to the ongoing viability of the Ports operations unless funding is appropriated in the Government national budget.

Te Aponga Uira (TAU)

TAU are required to provide for street and amenity lighting, provision of a lifeline tariff, removal of the monthly domestic meter charge, the maintenance of commercial-domestic subsidy and, from time to time, construction of uneconomic power line extensions. However, consistent with our requirement to operate under prudent commercial principles, all costs associated with the fulfilment of non-commercial social responsibilities required by the Government will be met by the Crown.

Whilst Government makes direct payment of the uneconomic extensions, by way of appropriation in the national budget, other social costs are deducted from the dividend. The estimated costs for implementing the Government's social policies in 2012/2013 and 2012/13 are summarised in the table 8.8 below:

Table 8.8 – Government National Service Obligations

Rarotonga	2012/13	2013/14	2014/15
Street and amenity lighting – energy cost	260,000	260,000	260,000
Street and amenity lighting – maintenance	40,000	40,000	40,000
Street Light – new installations	50,000	50,000	50,000
Total	350,000	350,000	350,000

Bank of Cook Islands

In accordance with the shareholder expectations, and capital expenditure plans for 2012 the Board resolves to implement a constant dividend payout ratio commencing 2011/12 and to set this at 35 per cent of Net Profit After Tax (NPAT) achieved in 2010/11.

The amount of dividend paid in any financial year is dependent on the earnings (which is inclusive of the Governments recognition and ongoing support in reimbursing BCI for social obligation costs) of that financial year.

BCI currently undertakes a range of functions that are unattractive in the commercial sense including banking services on all but two of the inhabited pa enua. The Government has been able to reimburse some of BCI's operating costs or losses on those islands in the last four financial years and BCI is hopeful payments will continue in the coming year.

Table 8.9 – Government National Service Obligations

Pa Enua	2012/13	2013/14	2014/15
Dividends received from BCI	439,950	509,810	557,053
Governments banking services subsidy to BCI	181,000	181,000	181,000
Total	\$258,950	\$328,810	\$396,053

8.6 Pa Enua Expenditure**Outer Island Funding Formula**

Island Administrations are responsible for a number of critical functions on the Pa Enua.

Each islands output appropriation is determined through a funding formula that sets the base budgets for gross appropriations (excluding depreciation) for each island relative to its size, population and output characteristics. Some discussions with Island Secretaries included requests for further funding however given the tight fiscal position, most understood that the requests would likely be declined.

The provisional population estimates for 2011 demonstrate the continued outward migration with the northern group seeing the largest decline of 21 per cent since 2006 and 13 per cent

decline in the southern group. The decline in the population on each of the islands is reflected in a slight decrease in the base budget. Output funding base budget is intended to maintain output performance of the Island Administration and generally not to provide a development budget.

Each year the formula is updated based on the maintenance of machinery purchased by the Island Administration over the year, maintenance for new roads constructed under the Pa Enea Capital Fund (OICF), and indexed by an inflationary factor if necessary as well as taking into account the issue of access with regard to freight for those islands in the North.

The core outputs of each outer island include the following:

- Island Council;
- Administration;
- Infrastructure- comprising water supply, road maintenance, maintenance of machinery, equipment and vehicles, maintenance of the airstrip, waste management, litterage, maintenance of government buildings, and beautifications;
- Energy;
- Other core outputs-primarily women, youth and sport; and
- Developed outputs-comprising education on Palmerston and school transportation services.

The challenges that exist in the Pa Enea is the real issue of sustainability of current service standards being eroded with every year as the population continues to decline. In contrast, the rising concentration of people and economic activity on Rarotonga and Aitutaki is helping ensure the future of these islands.

The residents of the Pa Enea are increasingly dependent on cash transfers, including child benefit and old age pensions. On most islands, approximately 40 per cent or more of the population are either under 14 or over 60 years of age. In most Pa Enea, it is the public sector that has shown the fastest growth. The private sector has remained very small and the public sector has remained the main source of employment. In 2008-09, power connections were a good indicator of economic activity with a total of 978 household connections and commercial connections of 65 (excluding Aitutaki).

As time progresses and their population's trend down, the role of most Pa Enea is narrowing to the provision of basic services to the small communities that choose to remain.

The Island Administrations has access to four types of other funding appropriated by the Government totalling \$10.8 million in 2012/13.

This included:

- Pa Enea Capital Fund (OICF, managed by MOIP for prioritised infrastructure and machinery purchases), carried forward from previous years of \$2.7 million.
- Pa Enea Small Capital Fund (managed by MFEM for office equipment, allocated by island), \$110,000 in 2012/13.

- Pa Enea Equipment Repairs for Unanticipated Breakdowns (POBOC under MOIP,) \$100,000 in 2012/13.
- Pa Enea net appropriation for 2012/13 \$8.1 million.

The Ministry of Finance and Economic Management's funding formula recommended reductions of \$0.577 million to the Pa Enea funding. The Government has decided to retain expenditure at previous levels.

Table 8.10 Pa Enea quarantined reductions from Formula

Pa Enea	Budget 2011/12	Proposed 2012/13	Budget Adjustments	% Change
Aitutaki	1,367,243	1,366,589	-654	-0.05%
Aitutaki Power Supply	349,040	349,040	0	0%
Atiu	929,695	877,704	-51,991	-6%
Mangaia	1,169,047	1,129,659	-39,388	-3%
Manihiki	702,712	603,181	-99,531	-14%
Mauke	790,331	696,932	-93,399	-12%
Mitiaro	511,382	489,393	-21,989	-4%
Palmerston	308,786	236,445	-72,341	-23%
Penrhyn	517,172	462,649	-54,523	-11%
Pukapuka/Nassau	917,216	839,703	-77,513	-8%
Rakahanga	421,125	355,324	-65,801	-16%
Total	7,983,749	7,406,619	-577,130	-97%

The Government will review the appropriateness of the formula as an instrument for determining both the level of funding provided to the Pa Enea as well as the allocation of resources amongst them.

8.7 Ministerial Support Offices

Over time the Ministerial Support Offices appropriation has increased in amounts and staffing numbers to the point where the appropriations are fiscally unsustainable. The Ministerial Support Offices have undertaken a budget reduction in operating amounting to \$0.003 million.

Table 8.11 – Ministerial Support Office Summary 2012/13

Summary	Gross	Nett
Prime Minister	375,250	375,250
Deputy Prime Minister	310,000	310,000
Minister Brown	285,000	285,000
Minister Heather	205,000	205,000
Minister Glassie	205,000	205,000
Minister Bishop	205,000	205,000
Leader of the Opposition	205,000	205,000
Total	1,790,250	1,790,250

8.8 Payments on Behalf of the Crown

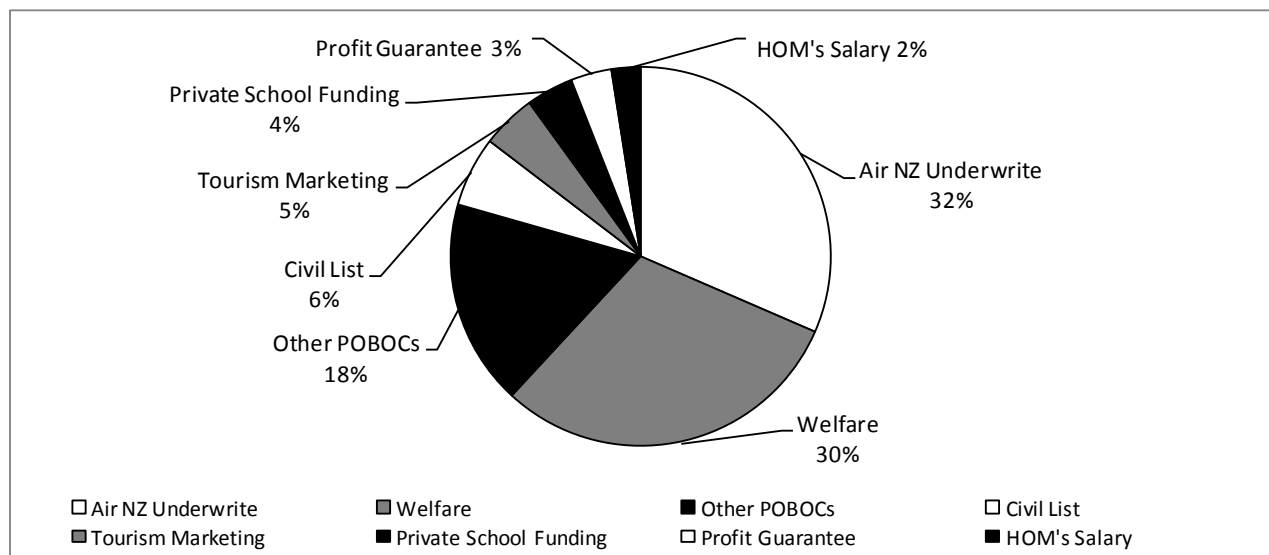
Payments on Behalf of Crown (POBOCs) have increased by \$2.9 million to a total of \$43.2 million in 2012/13.

POBOC's comprise of a large variety of payments to Ministries that serve for different purposes. The POBOC's of significant value can be seen below in Table 8.12

Table 8.12 – POBOC Summary 2012-2015

POBOCS	2012/13 Estimate \$'000	2013/14 Projected \$'000	2014/15 Projected \$'000
Air NZ Underwrite	13,600	13,600	13,600
Welfare	13,096	13,473	13,473
Other POBOCs	7,576	6,883	6,759
Civil List	2,581	2,273	2,273
Tourism Marketing	2,000	2,000	2,000
Private School Funding	1,731	1,731	1,731
Profit Guarantee	1,500	1,500	1,500
HOM's Salary	1,138	1,138	1,138
Total POBOCS	\$ 43,222	\$ 42,598	\$ 42,474

Chart 8.5 – POBOC Summary for 2012/13



Based on Chart 8.5, it is evident that the Air New Zealand underwrite and Welfare POBOC's equate to a large portion of the total POBOC appropriation for 2012/13. More detail on each of the POBOC's with significant value is provided below.

Subsidies

Air New Zealand Underwrite			
2011/12	2012/13	2013/14	2014/15
12,500,000	13,600,000	13,600,000	13,600,000

The Air New Zealand underwrite POBOC supports two non commercial long haul services operated by Air New Zealand from Los Angeles to Rarotonga and from Sydney to Rarotonga. The underwrite is a three year agreement which commenced in 2010/11.

The 2012/13 estimate of \$13.6 million is an increase of \$1.1 million on the 2011/12 estimate of \$12.5 million. This increase is predominantly attributable to the rising cost of fuel prices. Further information is available in the chapter on contingent liabilities and sensitivity analysis.

Apex - Profit Guarantee POBOC			
2011/12	2012/13	2013/14	2014/15
1,556,823	1,500,000	1,500,000	1,500,000

The Apex Profit Guarantee POBOC is a court ordered payment for a profit guarantee to Apex Agencies Limited in accordance with the terms of the TOA settlement agreement that requires

the Crown amongst other things to guarantee making up the balance if TOA's profit falls below \$1.2 million per annum.

Use of Goods and Services

Civil List			
2011/12	2012/13	2013/14	2014/15
2,580,668	2,272,602	2,272,602	2,272,602

The purpose of the Civil list POBOC is to provide funding for salaries, allowances, constituency travel and other privileges for Parliamentarians that are provided for under the *Remuneration Tribunals Order 2009/4 (the Act)*.

In 2012/13, an annual reduction of 10 per cent was introduced as a means of generating cost efficiencies for government.

Marketing – Tourism Growth Strategy			
2011/12	2012/13	2013/14	2014/15
2,000,000	2,000,000	2,000,000	2,000,000

The purpose of the Tourism Growth Strategy is to commit to Sales and Marketing programmes to support the additional long haul air services between Los Angeles to Rarotonga and Sydney to Rarotonga which are underwritten by the Crown. The establishment of this POBOC is vital for the survival of the direct flights. The marketing funds will strengthen the load factor for these route services.

Compensation of Employees

HOM'S Salary POBOC			
2011/12	2012/13	2013/14	2014/15
	1,138,279	1,138,279	1,138,279

The Head of Department (HOM) Salaries POBOC is newly established for 2012/13. This will provide the Office of the Public Service Commission with legislative mandate over the determination of HOM Salaries. The component of HOM Salaries will be transferred out of the Personnel Budget for all Ministries governed by the Public Service Commission Act and moved into this new POBOC. The office of the Public Service Commission will use this POBOC to assist them in monitoring HOM's performance against their remuneration packages. The amount of funds expended on HOM's salaries and entitlements will therefore be made more transparent.

Social Assistance

Welfare POBOC			
2011/12	2012/13	2013/14	2014/15
12,495,360	13,095,800	13,472,680	13,472,680

The Welfare POBOC supports and protects the most vulnerable members of our society through the provision of welfare benefits by the Government.

The payments are aimed at assisting the disadvantaged, the elderly, disabled and young families to meet the cost of basic needs such as food, shelter and clothing. Without this support, there would be greater levels of poverty in the Cook Islands. A review of the welfare system is currently underway.

Old Age Pension (70+)

Government in its manifesto indicated its desire to double the fortnightly pension for those aged 70 years and over. This position was reaffirmed in the December 2011 Parliament sitting. The planned pension increase will not only help those that are eligible to receive it by also the young families who are responsible for caring for their elderly parents.

In 2012/13, Government has agreed to a progressive transition towards the eventual doubling of the aged pension.

Table 8.13 – Old Age Welfare Funds

	2011/12 Budget	2012/13 Proposal	2013/14 Estimate	2014/15 Estimate
Legislated Welfare Payments				
Child Benefit	2,706,672	2,595,600	2,584,080	2,566,080
New Born Allowance	240,000	267,000	300,000	330,000
Old Age Pension	7,866,066	8,617,600	8,894,200	9,257,400
Destitute and Infirm Payment	519,222	448,200	495,000	482,400
Non-legislated Welfare Payments				
Caregiver's Allowance	360,000	315,000	396,000	394,200
Christmas Bonus	300,000	300,000	300,000	300,000
Funeral Allowance	170,000	170,000	170,000	170,000
Power Subsidy	86,400	86,400	86,400	86,400
Special Assistance	100,000	100,000	100,000	100,000
Bank of Cook Islands Fees	147,000	147,000	147,000	147,000
Other Payments				
Maternity Leave	0	49,000	192,000	192,000

Table 8.14 Details on Welfare Payments

	Payment Rate	Beneficiaries May 2012	Beneficiaries 2012/13	Assumptions
<i>Legislated Welfare Payments</i>				
Child Benefit (monthly)	60	3,620	3,605	A greater number of children expected to be removed from payment on reaching age of 12 and leaving the Cook Islands permanently. This is partially offset by an expected minor increase in new births.
New Born Allowance*	1,000	222	267	An increase in the number of births expected based on current trends.
Old Age Pension - 60 to 69 years of age (monthly)	400	1,010	1,018	An increase in the number of people turning 60 years of age in line with the long-term growth average of approximately 1 per cent.
Old Age Pension - 70 years of age and over (monthly)	450	672	691	A greater increase in the number of people turning 70 years of age compared with the less than 70 age group based on current trends.
Destitute and Infirm Persons Payment (monthly)	150	238	249	A minor growth expected due to increasing infirmity triggered by non-communicable diseases and mental health issues.
<i>Non-legislated Welfare Payments</i>				
Caregiver's Allowance (monthly)	150	165	175	A minor growth expected due to increasing infirmity caused by age and serious health issues requiring full-time care.
Christmas Bonus*	50	5,665	6,000	Estimated number of beneficiaries expected to receive payment in December 2012.
Funeral Allowance*	2,400	95	70	Estimated number of old age beneficiaries expected to funeral assistance.
Power Subsidy (quarterly)	60	343	360	Estimated number of old age beneficiaries expected to receive power subsidy.
<i>Other Payments</i>				
Crown-funded Paid Maternity Leave***	1,200	nil	42	Estimated number of working women in the private sector expected to be eligible for paid maternity leave from 1 July 2012.

Note that some payments are not made on a monthly basis.

*The New Born Allowance, Christmas Bonus and Funeral Assistance are paid on each occurrence. Funeral assistance rate is calculated at the value of six months of the payment type the beneficiary received.

***The Paid Maternity Leave is expected to be paid over a six week period for working mothers in the private sector who have given birth from 1 January 2013.

Table 8.15 – Old Age Welfare Funds

	2012/13	2013/14	2014/15
Cost to Government	416,400	436,248	468,600
Beneficiary numbers for 70 and over	694	727	781
Annual Increase in Pension per person aged 70+	600	600	600
Annual Pension per person before increase	4,800	4,800	4,800
New annual rate	5,400	5,400	5,400

The rate of payment is \$400 a month and is paid in two monthly instalments on the 1st and the 16th of each month. This payment was raised in 2002, 2003, 2004, 2005 and again in December 2008 where the rate was substantially increased from \$240 to the current level of \$400.

The rate of payment for eligible Cook Islanders aged 70 and over will increase by \$50 per month to \$450 per month from 1 July 2012. On average, it is estimated that there will be approximately 690 eligible beneficiaries aged 70 and over in 2012/13.

The Government will review the next transition following the outcomes of the current social welfare review.

Introduction of Paid Maternity Leave

Government aims to introduce with effect from 1 January 2013 a funded maternity leave scheme in parallel to its international commitment as signatory to the International Convention on the Elimination of Discrimination Against Women (CEDAW) and the Millennium Development Goals (MDGs).

The scheme is intended to provide protection for working mothers by requiring employers to provide those mothers with six weeks maternity leave at the time of the birth of a child.

To assist with private sector employers with this cost, the Government will contribute paid maternity leave based on six weeks at the hours ordinarily worked by the mother at the minimum wage rate, currently \$5 per hour. The employer can then top up the entitlement if they so desire.

The introduction of this scheme will provide economic sustainability to families who have just had a child and require some form of income whilst the mother is not working and bonding with her new child.

This employment condition is to be incorporated into the proposed Employment Relations Bill and will be operated through the Ministry of Internal Affairs. It is separate from the baby bonus or welfare payments, it is proposed to make such payments directly to the employer to pay the employee. Eligibility criteria will be clarified in the regulations attached to the proposed legislation.

Current Miscellaneous Other Expense

Private School Funding POBOC			
2011/12	2012/13	2013/14	2014/15
1,620,079	1,731,295	1,731,295	1,731,295

Both the Education Act (1986/87) and the proposed Education Bill allow for the establishment of private schools. The proposed Bill extends the current act by allowing for the registration of private tertiary and TVET providers in addition to the current pre-primary, primary and secondary providers.

A private provider must demonstrate that the establishment of their institution fulfils a need of the country. Private schools have an aspect of “special character”. There are currently eight private providers in the Cook Islands; the special character of five of these schools is identified through religious affiliation.

All private schools receive 100 per cent equivalent funding to government schools for professional staff salaries and operating costs based on enrolment, no funds are provided for grounds or buildings. Funding is conditional on the school being open to education review and quality assurance and financial audit. This policy of 100 per cent equivalent funding has been in place since 2007/08. Prior to this time, private schools received varying amounts of funding (50 – 95 per cent equivalent) depending on the level of integration into the public education system.

All private schools receive the same services of the central Ministry with respect to service training for teachers, specialist services and specific resourcing or pedagogical projects.

Private schools may charge additional fees. These are utilized to fund buildings, ancillary staff (eg library, office) and for some schools additional teachers (some private schools have lower teacher: student ratios).

Charts 8.6 and 8.7 demonstrate public funding to private schools.

Chart 8.6 Total Private School Enrolments 2008 to 2012

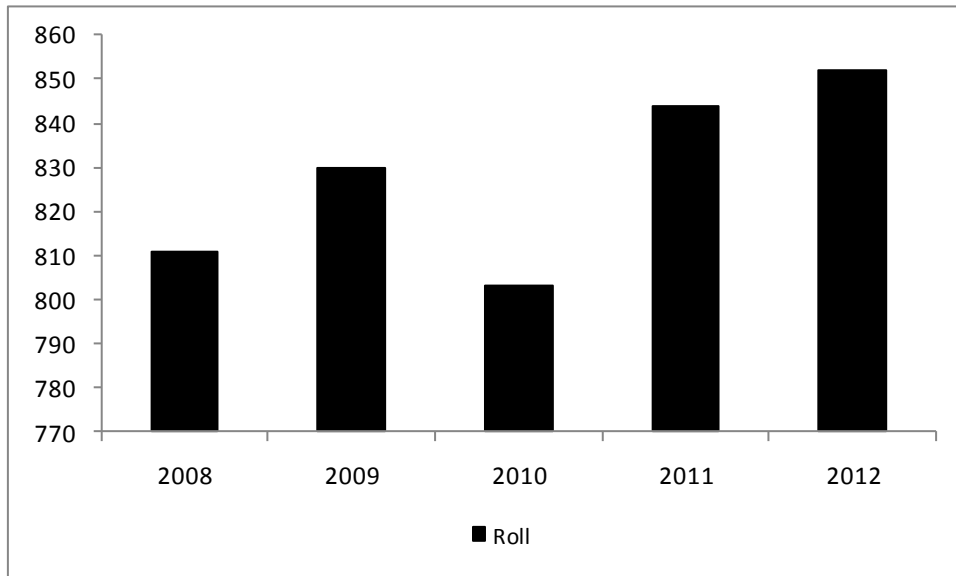
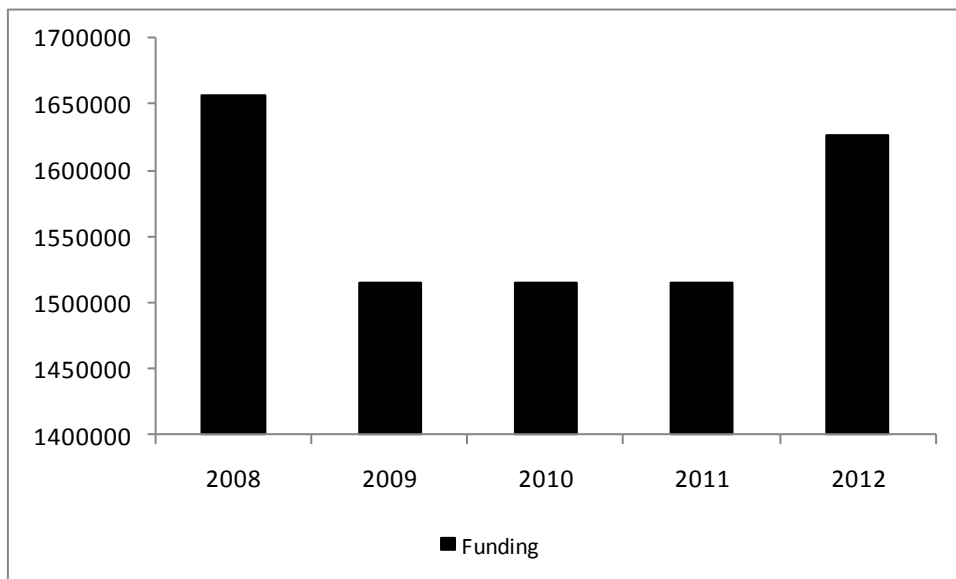


Chart 8.7 POBOC Funding to Private Schools

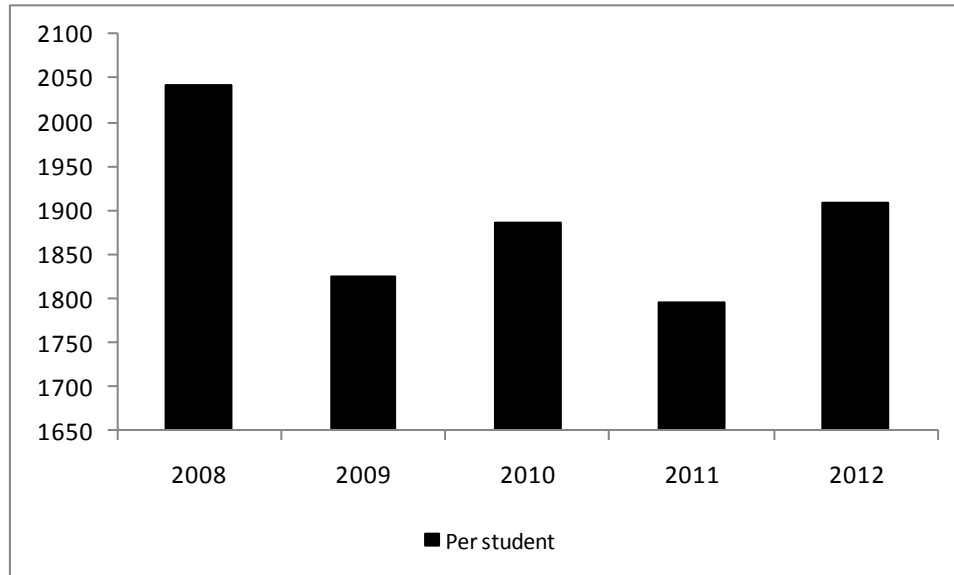


¹ Refer to footnote for further detail on POBOC funding to Private Schools.

¹ Note 1: In 2011/12, the MoE supplemented POBOC funding to private schools by \$111,000 to cover shortfall in funding. This is not included in the table above but increases funding per student to \$1926. This compares with a cost of \$2374 per student in government schools.

Note 2: These calculations do not include the Creative Centre who do get funding for some programmes from POBOC funding to private schools but are not calculated on the same formula due to the specialist programmes and needs of the Centre.

Chart 8.8 Funding per Student



The Ministry of Education has been provided with an on-going increase to the POBOC amount of to enable \$111,216 equitable access to quality education for all children.

Minor Adjustments to POBOC's

Smaller adjustments made to the POBOC's include the following:

- \$0.10 million towards a new Outer Islands Shipping and Freight POBOC. This is a one-off POBOC for 2012/13 to cover the costs of freight associated with the maiden voyage of the "Northern Star" to the Northern group in April 2012.
- \$0.05 million towards the Infrastructure Committee. This is to fund a robust Infrastructure Committee that will function as a technical advisory committee to the National Sustainable Development Committee (NSDC). This Infrastructure Committee will have secretariat functions to oversee the infrastructure development programmes and will work together to prioritize infrastructure activities. This should lead to an improved management of assets, infrastructure development as well as publically accessible information and a transparent programme of infrastructure work to be completed.
- \$0.37 million towards the Seabed Minerals Commission POBOC. The goal of this POBOC is to support the development of a seabed minerals industry in the Cook Islands. This funding serves as an interim arrangement until the seabed minerals authority is established and regular appropriation can be provided for. The priority funding requirements for the 2011/12 is to support the recruitment of the resident adviser for salaries, the office set up

and operations. The programme progress will be reviewed by the Seabed Minerals Committee.

- \$0.65 million as a result of the decision by the Government in 2011 to host the Pacific Islands Forum in August 2012 (CM (11) 0341). The Government of the People's Republic of China is contributing a total of USD1 million and the Government of Australia a total of AUD 0.250 million towards the Pacific Leaders Forum. The Government of the Cook Islands will provide a further \$0.050 million. As host, Government is under an obligation to meet certain expenses (e.g. accommodation for Forum leaders). A general programme has been endorsed for meetings and related events and logistical costs have been calculated accordingly. All activities relating to the preparations for and holding of the meeting are being closely overseen by the Prime Minister and Deputy Prime Minister.
- \$0.2 million towards the Fisheries Development POBOC. This facility aims to develop a vertically integrated domestic fishing industry throughout the country and in addition to improve and enhance the Cook Islands Fishing industry. This will be achieved through four components focused on
 1. a small grant facility for small scale fisheries related activities;
 2. a fisheries development support fund implemented by the Ministry of Marine Resources (MMR);
 3. a grant scheme to be disbursed by the Cook Islands Fishing Association to its association chapters; and
 4. a programme management fee, most of which is to be provided to the Cook Islands Fishing Association (CIFA).

The Cook Islands is a member of many regional and international organizations. International organizations are those based outside the Pacific region and regional organizations are those based within the Pacific, primarily in Fiji, New Caledonia and Samoa. Annual subscriptions to these organisations are managed and administered by the Ministry of foreign affairs and immigration.

Table 8.16 –Regional and International Organisation Contributions 2012/2013

Organisation	Currency	Foreign Amount	Exchange Rate *	NZD Equivalent
SPC	XPF	2,714,500	64.6923	41,960
ACP	EUR	9,544	0.5421	17,605
CFTC	GBP	5,431	0.3680	14,759
CTBTO	USD	1,466	0.8017	1,829
CTBTO	EUR	79	0.5421	146
CTBTO (Nuclear Test Ban Treaty Organisation)	USD	3,997	0.8017	4,986
CTBTO (Nuclear Test Ban Treaty Organisation)	EUR	565	0.5421	1,042
CYP	GBP	8,885	0.3680	24,145
FAO	USD	1,765	0.8017	2,202
FAO	EUR	1,768	0.5421	3,261
FAO (Rotterdam Convention)	USD	402	0.8017	501
FFA	USD	14,962	0.8017	18,663
Forum Secretariat	FJD	43,274	1.1836	36,562
Global Forum on Tax Transparency	EUR	15,000	0.5265	28,490
International Criminal Court	EUR	3,325	0.5421	6,133
International Seabed Authority	USD	487	0.8017	607
International Tribunal for the Law of the Sea	EUR	792	0.5421	1,461
OPCW (Chemical Weapons)	EUR	686	0.5421	1,265
PIDC	AUD	1,000	0.6666	1,500
SOPAC	FJD	13,253	1.1836	11,197
SPREP	USD	10,184	0.8017	12,703
UNCCD	EUR	373	0.5421	688
UNCCD	USD	67	0.8017	84
UNDP	USD	27,751	0.8017	34,615
UNEP (Convention on Biological Diversity)	USD	418	0.8017	521
UNESCO	USD	6,584	0.8017	8,213
UNESCO	EUR	2,968	0.5421	5,475
UNFCCC	USD	448	0.8017	559
UNFCCC (Climate Change)	USD	486	0.8017	606
UNFPA	NZD	1,500	1.0000	1,500
WCPFC	USD	16,087	0.8017	20,066
WHO	USD	8,940	0.8017	11,151
WHO (FCTC)	USD	124	0.8017	155
WMO	CHF	12,490	0.8937	13,975
TOTAL				328,626

9 TAX EXPENDITURES

A key element of fiscal transparency is the analysis and management of tax expenditures. A tax expenditure in broad terms, is a tax provision that deviates from a benchmark tax system.

Tax expenditures may take a number of forms: exclusions, exemptions, allowance, deductions, credits, preferential tax rates, or tax deferrals. Tax holidays and tax free zones are tax expenditures subject to specific time periods or geographical areas.

To identify what tax expenditure is, a normative or a benchmark tax structure must be established. In the case of the Cook Islands the benchmark tax structure is the existing tax regime as governed by the following Acts, the:

- Income Tax Act 1997
- Value Added Tax Act 1997; and
- The Customs Act 1913.

The Ministry of Finance and Economic Management has not attempted to cost these expenditures, but has in the first instance identified them and will look at possibly costing these into the future.

Import Levies

Concession Type	Description
Concession on fuel to the pa enua.	Fuel to all pa enua is free of levy except Aitutaki where the rate is 15 cents per litre on petrol and 5 cents per litre on diesel. The rate for Rarotonga is 28 cents per litre on petrol and 22 cents per litre on diesel.
Exemptions from levy approved by BTIB.	The Business Trade and Investment Board may approve exemptions from levy on motor vehicles pursuant to the Business Trade and Investment Board Act 2003.
Concessions for returning Cook Islanders.	All levies are waived for returning Cook Islanders who have been away for more than three years and are returning to live in the Cook Islands for the next two years.
Levy free jet fuel.	There is no levy payable on jet fuel and aviation

Concession Type	Description
	kerosene supplied to jet propelled aircraft.
Income Tax	
Concession Type	Description
A reduced secondary rate of tax for individuals working two or more jobs.	Where an individual has more than one employment, that income may be subject to a reduced rate of tax of 20 cents in the dollar. This applies to incomes not exceeding \$30,000 per annum, which would otherwise be taxable at 25 cents in the dollar.
Deductions allowed in respect of donations to charitable organisations.	Charitable donations are deductible from taxable incomes at the marginal rate of one's income. The minimum donation is \$200. The maximum donation is \$5,000.
Income derived by non resident airlines operating in the Cook Islands.	All income derived by an airline is exempt of tax.
Income of Queen's Representative.	The income of the Queen's Representative is exempt.
Income of the Crown.	All Crown Ministries are exempt of income tax.
Pensions arising from disability or from services provided to the forces.	All overseas pensions and annuities paid to persons who served in the armed forces are exempt of income tax.
Pensions and allowances paid out under the Welfare Act 1989.	Old age pensions and allowances paid under the Welfare Act 1989 are exempt of tax.
Income from approved superannuation funds.	Incomes derived by either the New Zealand Government Superannuation Fund or by a superannuation fund approved by the Collector are exempt from tax.
Income derived by charitable organisations	All income derived by charitable organisations is exempt of tax.
Income derived by promoters of amateur sports.	All income derived in the promotion of amateur sport is exempt of tax.

Concession Type	Description
Income derived under a government approved supplementary scheme.	Incomes derived by teachers and other employees approved by government under a supplementary scheme are exempt of tax. This applies only to the supplementary income received, not the income paid by the Crown.
Income derived by consular and diplomatic personnel.	Income derived by consular and diplomatic personnel as is exempted under the Diplomatic Privileges and Immunities Act 1968.
Income derived from a foreign source in the context of international foreign aid.	Income derived in the context of foreign aid, paid by a non resident to a non resident employer is exempt of tax.
95 per cent of incomes derived upon retirement.	Where an individual retires from employment, only 5 per cent of the retirement payment shall be subject to tax.
Exemptions from Withholding tax.	Cook Islands National Superannuation Fund (CINSF) earnings of the CINSF are exempt from withholding or income tax. Where income has been exempted under the Income Tax Act 1997, withholding income will also be exempt from tax.

Value Added Tax

Concession Type	Description
Financial services provided by the Banking industry.	Financial services provided by domestic Trading banks are exempt of VAT.
Departure tax.	Departure tax is exempt of VAT.
Attendance dues paid to private schools.	Attendance dues paid to private schools are exempt of VAT.
Zero rated supplies.	Goods entered for export from the Cook Islands are subject to VAT at the rate of 0 per cent. Services

Concession Type	Description
	performed in the transportation of goods and passengers into and out of the Cook Islands are subject to VAT at the rate of 0 per cent.
Goods imported by non-profit and religious organisations, schools and for disaster relief.	Goods imported by non-profit and religious organisations, schools and for disaster relief are exempt of VAT upon importation.
Goods imported by the Queen Representative and the New Zealand High Commission.	Goods imported by the Queen Representative and the New Zealand High Commission are exempt of VAT upon importation.

10 CROWN DEBT AND NET WORTH

10.1 Gross Debt owed by the Crown

Total gross debt owed by the Crown is estimated to reach \$93.6 million by 30 June 2012 and in the absence of any future borrowings is expected to reduce to \$80.1 million by 30 June 2015. The net reduction of \$14.0 million from \$107.6 million as reported in the 2011/12 Budget is due to a favourable movement in the average USD/NZD exchange rate from 0.7465 to 0.7865 (5.4 per cent). A brief account of this foreign exchange movement is shown in the following table 10.1.

Table 10.1 – Reconciliation on 2011/12 Foreign Exchange Movement

Movement Reconciliation	\$ million	\$ million
Gross debt as at 30/06/2011		107.6
Movement in foreign exchange		
Principle repayment	-2.8	
Unrealised exchange (gain)/loss	-11.2	
Total movement in foreign exchange		-14.0
Gross debt as at 30/06/2012		93.6

The USD/NZD exchange rate of 0.8208 which applies for the 2012/13 Budget is a reflection of the monthly average for the period of March 2012. Past changes in major exchange rates against the New Zealand dollar are reflected in Chart 10.1.

Chart 10.1 - Movements in Major Exchange Rates against the New Zealand Dollar

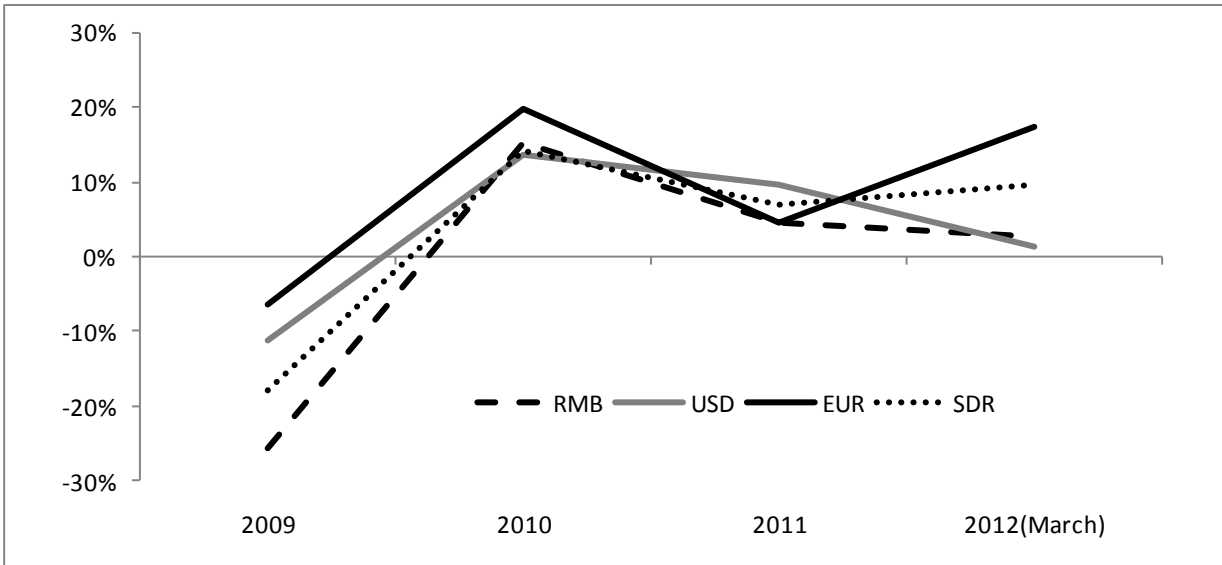


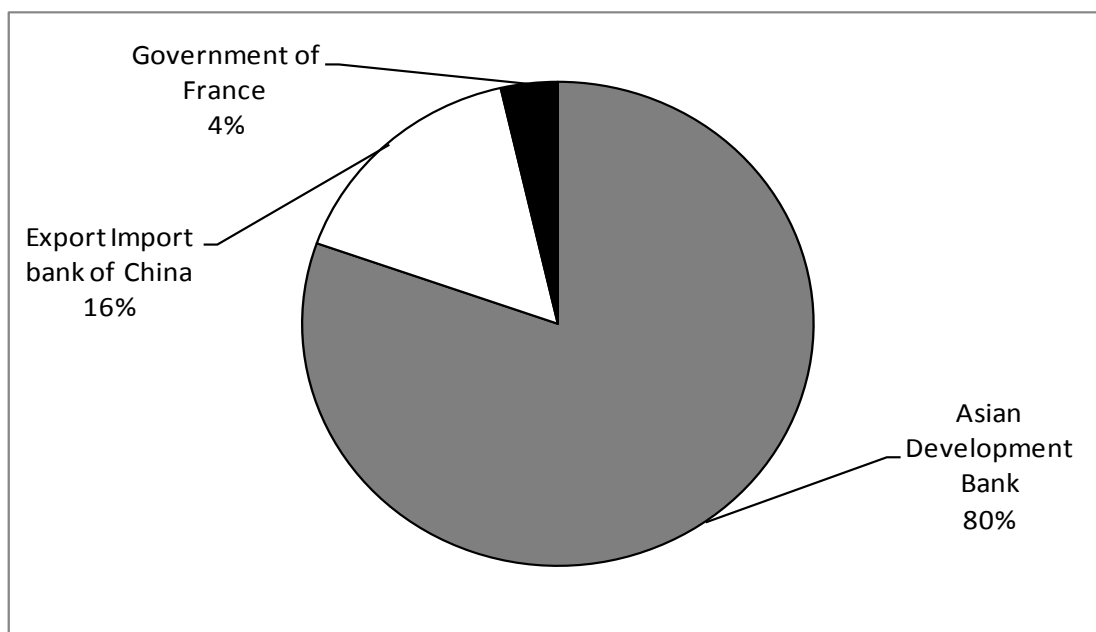
Chart 10.1 has clearly illustrates the change in the New Zealand dollar from 2009 to 2012. The Budget does not attempt to forecast future value of the New Zealand dollar. The Budget assumes that the exchange rates as at March 2012 will remain constant in 2012/13 to 2014/15.

A sensitivity analysis has been prepared to determine the impact of a 5 per cent depreciation and appreciation in the New Zealand dollar against the major currencies in which the government's borrowings are denominated. The corresponding impact on the debt Profile and associated debt servicing payments are provided later in this chapter.

Gross Debt by Lenders

The estimated gross debt by Lenders owed to the Crown as at 30th of June 2013 is outlined in Chart 10.2.

Chart 10.2 - Gross Debt Estimates by Lenders as at 30 June 2013



A further breakdown of each loan is provided in Table 10.2 - which outlines the original amount borrowed and the expected repayment date for each loan. The Government has not committed the Crown to any new borrowings during the 2011-2012 fiscal year, though it has two loans which remain undrawn, they are as follows:

- Port Authority Supplementary Loan (ADB) \$6.3 million (USD 4.7 million) and,
- Second Tranche Economic Recovery Loan (ADB) \$8.0 million (USD 6.0 million)

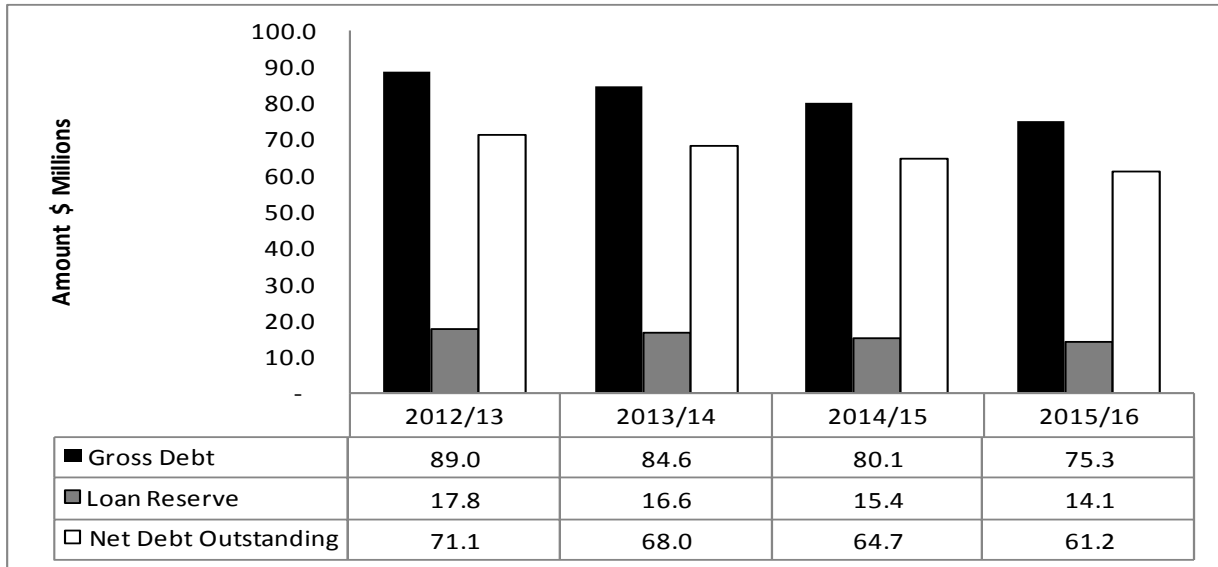
The ADB Port Authority Supplementary Loan of \$6.3 million is expected to be drawn down during the 2012/13 financial year together with the second tranche of the ADB Economic Recovery Loan of \$8.0 million.

The drawdown of the ADB Economic Recovery Loan (ERL) depends on the outcome of the first tranche of the ADB ERL of \$14.0 million (USD 10.0 million) that is predominantly financing the

major roadwork development project happening on the main road from Nikao to Avarua including the water supply upgrade project on Rarotonga (Project City).

Chart 10.3 and 10.4 illustrate the Cook Islands overall debt burden for the next four years.

Chart 10.3 - Cook Islands Overall Debt Burden



The Crown debt burden forecast for the next four years is relatively stable and manageable given the current status of the New Zealand dollar against the major currencies in which borrowings are denominated.

It should be noted from Table 10.2 that the amount estimated to be covered by the loan reserve fund for 2012/13 fiscal year is \$15.1 million. The loan reserve trust fund currently has an estimated balance of \$17.8 million, resulting in a net balance of \$2.8 million. This net balance will be used as a buffer to cover for unfavourable movement in exchange rates in the outer years.

Chart 10.4 - Current Bilateral and Multilateral Estimate Loans Outstanding Next 10 Years

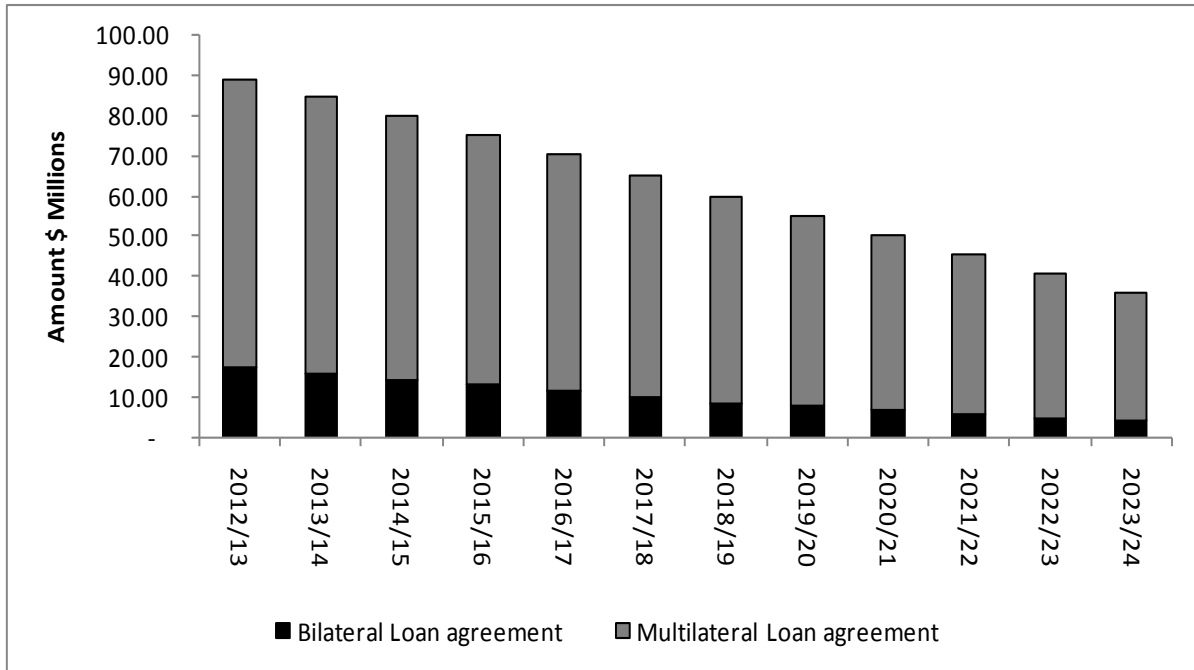


Chart 10.4 shows the current bilateral and multilateral amount of borrowings for the next 10 years from 2012/13 to 2023/24. The majority of the debt is committed with the ADB.

The Crown debt burden forecast for the next 10 years is expected to increase with the likely probability that further loan funds will be sought to finance public works associated with water and sanitation. These borrowings could total around \$43.0 million.

Finalisation on the amount, terms and conditions of repayment of these new loans is factored into the debt analysis under Charts 10.5 and 10.6 to demonstrate the impact of such a borrowing on the overall fiscal responsibility settings.

The Government has commenced negotiations with the ADB to consolidate its borrowings and convert them to a NZD basis to simplify administrative processes as well as providing greater certainty on future debt servicing costs.

Table 10.2 - Status of the Government Crown loans as at 30 June 2013

Loan	Date loan taken	Original loan amount (000)	Current balance (000) (NZD)	Expected date of repayment	Amount covered by loan reserve
New Zealand Govt Super Fund	November, 1980	NZD 5,849	0	June, 2013	0
Restructured French Loans	January, 1999	Euro 5,413	3,195	September, 2018	3,195
China - Multi-Functional Indoor Sports Stadium	August, 2008	Yuan 74,100	14,246	August, 2028	0
ADB 461 (SF) Multi Project	November, 1980	SDR 1,000	744	August, 2020	0
ADB 849 (SF) 2nd Multi-Project	December, 1987	SDR 2,067	2,178	August, 2027	2,178
ADB 1155 (SF) 2nd CIDB Project	March, 1992	SDR 939	1,258	December, 2031	1,258
ADB 1171 (SF) Emerg. Telecom Rehab Project	August, 1992	SDR 291	432	June, 2032	432
ADB 1317 (SF) Educ'n Dev Project	February, 1995	SDR 1,836	2,805	August, 2034	0
ADB 1380 (SF) 3rd CIDB Project	January, 1996	SDR 1,538	2,321	September, 2035	2,321
ADB 1466 (SF) Economic Restructure Program	September, 1996	SDR 3,430	5,124	September, 2036	0
ADB 1588 (SF) Cyclone Emergency Rehab Project	January, 1997	SDR 475	858	January, 2038	0
ADB 1832 (SF) Waste Mgt Project	December, 2001	SDR 1,695	2,476	June, 2033	0
ADB 2174 (SF) Cyclone Emergency Assist Project	June, 2005	SDR 1,895	3,790	June, 2045	0
ADB 2565 OCR Economic Recovery Support Program SubProg 1	January, 2010	USD 10,000	11,676	October, 2024	0
ADB 2472 (OCR) Avatiu Port Development Project	September, 2009	USD 8,630	10,514	November, 2033	0
ADB 2473 (SF) Avatiu Ports Development project	September, 2009	SDR 8,346	8,493	November, 2040	0
ADB 2565 OCR Economic Recovery Support Program SubProg 2	2012	USD 5,750	7,005		0
ADB 2739 (OCR) Amendment Avatiu Port project	December, 2011	USD 4,700	5,726	November, 2035	0
ADB 567 (SF) CIDB Project	July, 1982	SDR 1,500	654	April, 2022	654
ADB 1309 (SF) Pearl Industry Dev. Project	December, 1994	SDR 336	460	August, 2034	0
ADB 1031 (SF) Outer Islands Telecom Project	October, 1990	SDR 3,541	5,025	August, 2030	5,025
Total			88,981		15,064

10.2 Crown Loan Reserves

The Crown Loan Reserve Trust Fund was established in 2001 to enable Government to access to concessional loans and provide these on to State Owned Enterprises (SOEs).

The payment terms with the external lenders which included a grace period of (normally five years) was not extended on to SOEs. SOEs have paid the full debt servicing cost from the initial drawdown of the loan.

In 2001 these funds were put aside into a debt reserve.

The overall objective of the trust fund is to build the fund to a stage where it fully covers the outstanding amount owed to lenders from the SOE's.

As at 30 June 2012 the objective was met with all SOE loans with the Crown being fully covered. These SOEs include the Bank of the Cook Islands, Te Aponga Uira, and Cook Islands Telecommunication.

The new loan approved for the Cook Islands Port Authority will be treated as a loan to the Crown from the ADB. The Cook Islands Port Authority is expected to repay and honour the same loan repayment schedule and terms agreed between the ADB and Government.

It is anticipated that the principle objective of the Crown Loan Reserve trust fund will be extended beyond the SOE's to incorporate all Crown debt. The Government will pursue options to legislate the Crown Law Reserve Trust Fund during 2012/13 and formalise the current debt management approach.

Table - 10.3 Debt Reserve Transactions

Debt Reserve Working	Transfer In	Transfer Out	Balance	SOEs Debt
Budgets 2005-2006			17,018	
2006-07 transfer to reserve	1,529	0	18,547	22,390
2007-08 transfer to reserve	1,287	0	19,834	23,497
2008-09 transfer to reserve	1,100	0	20,934	21,018
2009-10 transfer to reserve	1,100	0	22,034	18,465
2010-11 loan repayment	0	1,529	20,505	17,365
2011-12 loan repayment	0	1,429	19,076	16,177
2012-13 loan repayment	0	1,237	17,839	12,541
2013-14 loan repayment	0	1,237	16,603	11,495
2014-15 loan repayment	0	1,237	15,366	10,450
2015-16 loan repayment	0	1,264	14,103	9,378

10.3 Net Debt

Net debt is the difference between the gross debt and monies held in the Crown Loan Reserve. Net debt is estimated to be approximately \$71.1 million (18.3 per cent of GDP) as at 30 June 2013, the large decline since the 2011/12 budget is predominantly due to the favourable exchange rate change.

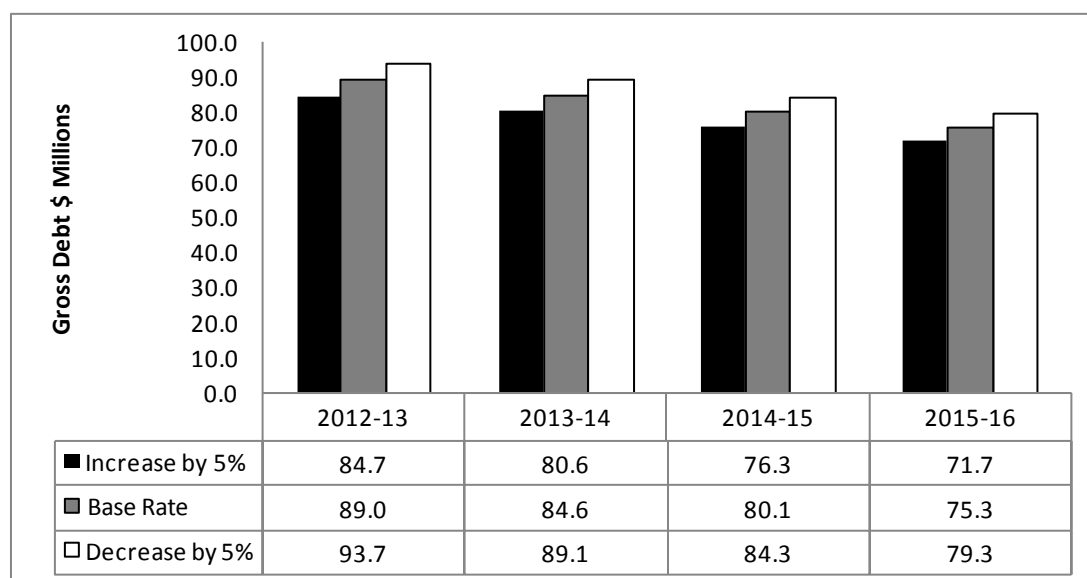
Table 10.4 – Estimated net debt to 2015/16

	2012/13 Proj	2013/14 Proj	2014/15 Proj	2015/16 Proj
Statement of Borrowings	\$m	\$m	\$m	\$m
Net Crown Debt, End of FY	71.1	68.0	64.7	61.2
as percentage of GDP	18.3%	16.9%	15.5%	14.2%
Loan Repayment Reserves Held	17.8	16.6	15.4	14.1
Gross Debt Servicing	4.4	5.3	5.5	5.6
Gross Debt as percentage of Total Revenue	4.0%	4.7%	4.7%	4.8%
Net Debt Servicing	4.2	5.0	5.0	5.1
Net Debt as percentage of Total Revenue	3.9%	4.4%	4.3%	4.3%

10.4 Crown Debt Sensitivity Analysis

The sensitivity analysis demonstrate the impact of a 5 per cent appreciation or depreciation in the New Zealand dollar is prepared to determine the impact on the gross borrowings and the debt servicing cost.

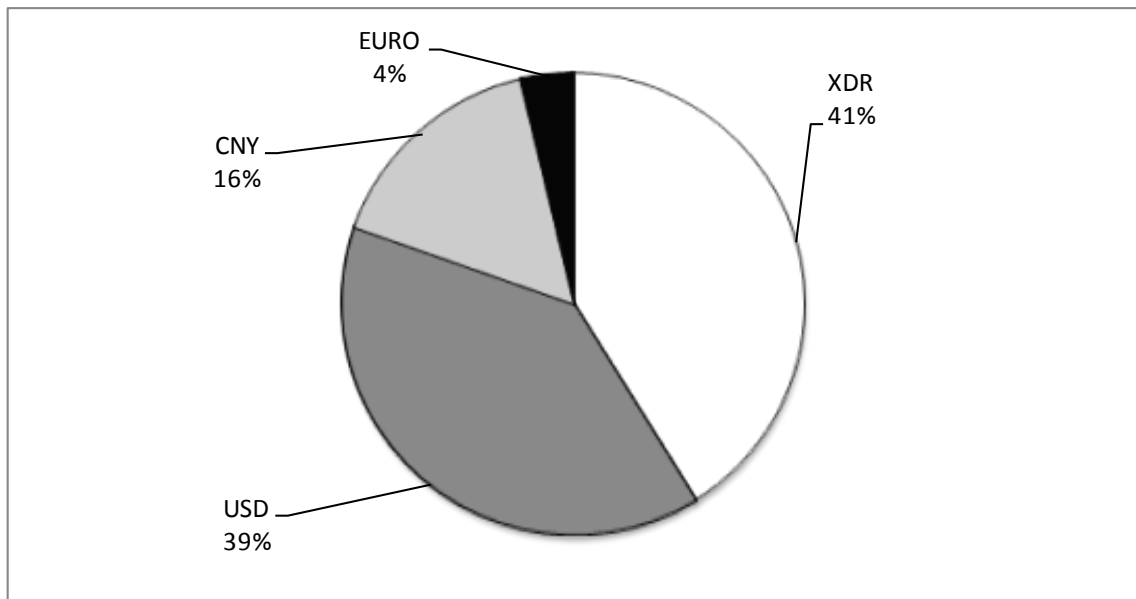
Chart 10.5 - The Impact of the Government Crown Gross Debts Estimates assuming a 5 per cent is Added or Deducted from the Based rate.



Any decision to commit to further borrowings will be assessed carefully due to the sensitivity of the New Zealand dollar. A continued depreciation of the New Zealand dollar (NZD) beyond

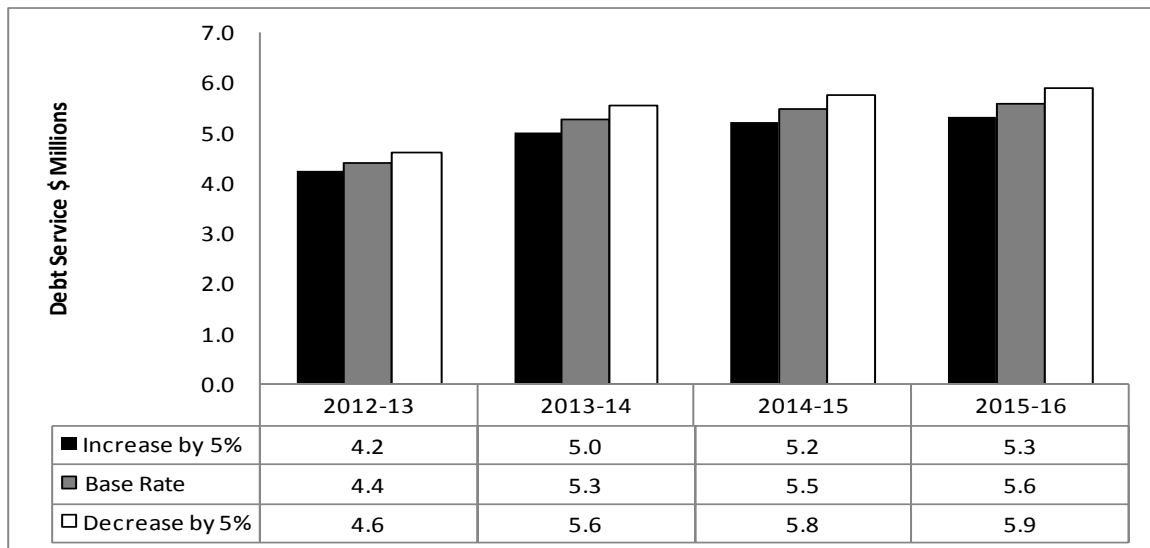
the 5 per cent scale reduces the opportunity for further borrowings and increases debt servicing costs.

Chart 10.6 – Composition of Crown Debt as at 30 June 2012 by Currency



The majority of Crown debt as reported is mainly denominated in Special Drawing Rights SDR or (XDR) and the United States dollar (USD).

Chart 10.7 - Crown Debts Servicing Costs assuming a 5 per cent is Added or Deducted from the Based rate



The impact of the five per cent increase or decrease on debt servicing cost is relatively consistent to the impact on gross debts. Overall a five per cent change in the NZD exchange rate will lead to a \$300,000 change in debt servicing.

10.5 Future Borrowings and Fiscal Responsibility Ratios

Any future borrowing proposals must be treated under transparent processes as required by the *MFEM Act 1995-96*, evidenced by well researched business cases and funded through a user pays system where possible. The fiscal responsibility ratios will prudently assist Government to manage the growth of its future borrowing plan.

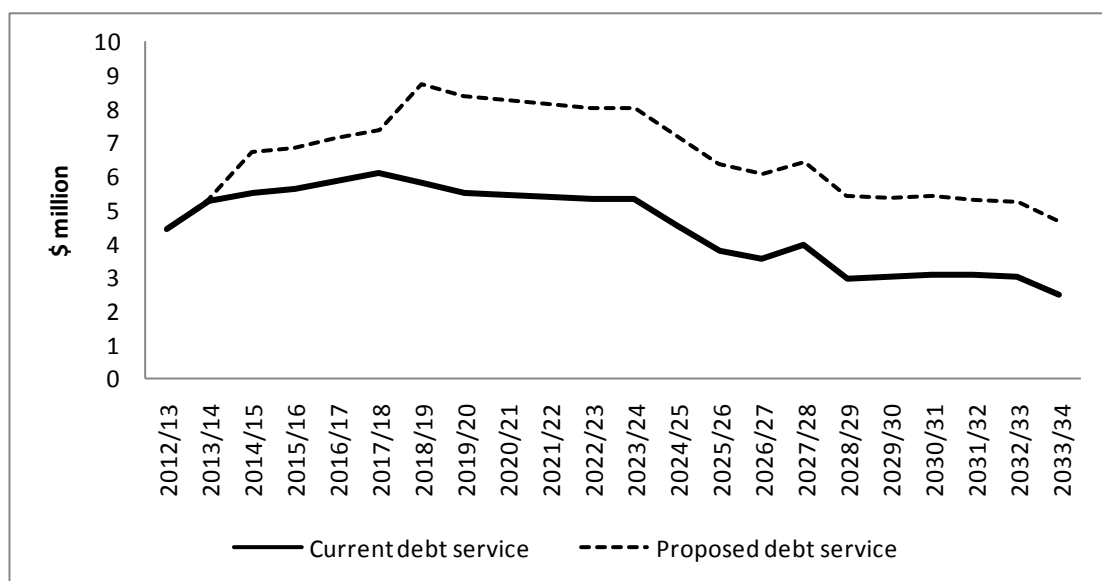
The current borrowing level is 18.3 per cent of GDP which is within the fiscal responsibility ratio threshold of 35 per cent.

The demand for upgrading infrastructure for sustainable economic growth is always a priority for Government and any future borrowings must be approached cautiously.

Government has two borrowings plans in the pipeline for infrastructure purposes they will be to fund major water and sanitation infrastructure.

Charts 10.8 shows the indicative shift of the debt service cost and gross debt if loans at \$43.0 million are taken. These loans are assumed to be on the same general terms of 25 years inclusive of a five year grace period and charged at three per cent interest per annum thereafter.

Chart 10.8 Debt Service Cost Analysis for 20 Years Vision



Debt Service to Total Revenue

This ratio outlines the burden of debt servicing on the budget. The ratio identifies whether there are sufficient means to service debt from operating revenue. Taken together with the tax revenue envelope, this ratio measures how much debt servicing is crowding out other components of Crown spending. Debt servicing includes interest and principal payments.

The benchmark for debt servicing to the total revenue ratio is not to exceed five per cent of the Crown total revenue. During the BPS, this ratio was recorded at 1.8 per cent well below the benchmark.

In the event Government decided to take on the new loans, the debt servicing cost will increase as shown in chart 10.9 and 10.10 but the percentage to total revenue for the next 4 years, that is 3.2 per cent for 2012/13, 4.7 per cent for 2013/14 and 2015/16 respectively will remain below the 5 per cent benchmark.

Chart 10.9 Total Debt as a proportion of GDP

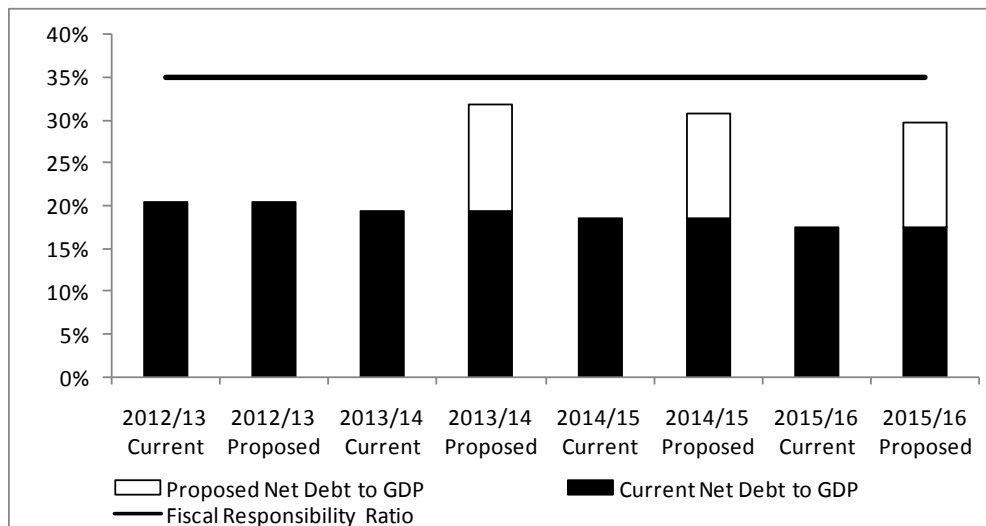
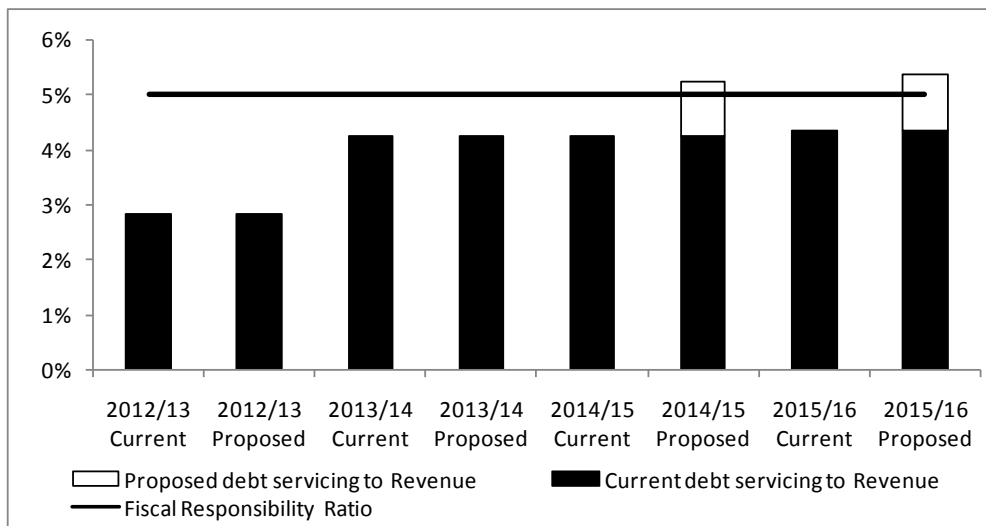


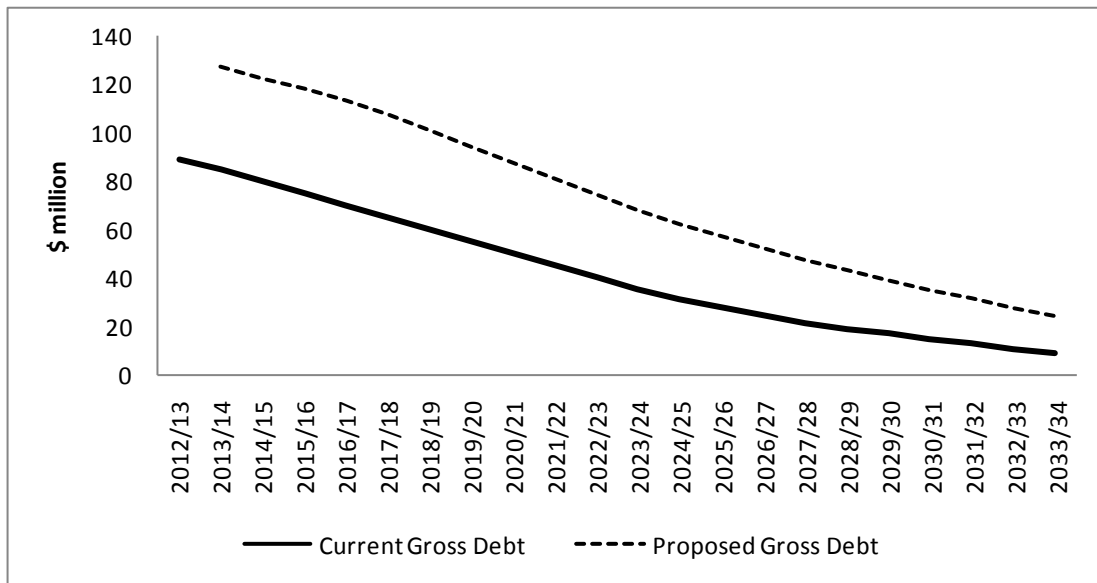
Chart 10.10 Debt Servicing as a Proportion of Revenue



Debt Outstanding

Chart 10.11 demonstrates the current level of gross debt owed by the Crown. If the Crown decided to take on new borrowings, the gross debts is expected to rise but remain manageable within the carrying capacity of the 35 per cent benchmark as the total gross debt outstanding reduces in the outer years.

Chart 10.11 Total Gross Debt Analysis for 20



10.6 Other State Owned Enterprise Debt

The analysis provided in this chapter excludes debt held by the Airport Authority.

In its financial report for 2010/11 The Airport Authority reported that it had recently financed its loan with a new provider. The terms of the loan was for \$8.1 million which was taken over a five year term with a variable interest rate of 5.99 per cent (the loan was not fully drawn as at 30 June 2011).

The loan is repayable by monthly instalments of \$68,308.65 which is inclusive of interest and is based on a 15 year amortisation term with balloon payment at the end of term.

The loan is secured by registered mortgage debenture over the assets and undertakings of the Airport Authority. A financial covenant will apply where the amount of EBITDA generated less dividend paid will at all times be greater than twice the annual debt servicing commitments. The Covenant will be measured annually in arrears. The Airport Authority is considering additional borrowing of 23 million for further airport upgrades of Rarotonga International airport.

Te Aponga Uira have also indicated they are considering new borrowings of approximately 13 million to finance new investments in electricity generation and supply assets including infrastructure aimed at improving renewable energy distribution and supply.

11 ASSET SALES

11.1 Asset Sales

Government decided in 2011 that the Cook Islands Consulate should be relocated to South Auckland given the proximity of that location to Auckland International Airport and the fact that a significant proportion of people of Cook Islands descent in New Zealand live in the South Auckland area.

The property and building which has housed the Consulate in Symonds Street, Newton, Auckland was placed on the open market for sale in July last year.

An offer to purchase the property for \$1,610,000 was accepted in April 2012 and negotiations for the finalisation of the sale are expected to be completed in June 2012.

The property was initially purchased in 1994 for \$976,000.

As part of the conditions for the sale of the property, the Consulate will continue to occupy the top floor of the property rent-free until 30 June 2013.

The sale of the property will mean that the Crown will forego the revenue earned by renting out the ground floor of the two storey building of \$68,000 per annum which has covered a significant part of the annual operating costs of the two properties (the other property houses the High Commission in Wellington) under the Cook Islands Property Corporation (NZ) such as insurance, warrant of fitness certification, GST, repairs and maintenance and so on.

Proceeds from the sale of the Consulate will initially be retained in a special interest-bearing deposit account, under the Cook Islands Property Corporation (NZ). The Government is yet to decide on the eventual use of these proceeds. However some of them are expected to be applied to:

- relocation costs of the Consulate to South Auckland (yet to be determined);
- refurbishment of the High Commission building in Wellington;
- retention of adequate funds to cover the land and building owner obligations such as insurance, GST, repairs and maintenance and so on for the High Commission for the triennium (2012/13 to 2014/15); and
- part payment of the CIPC(NZ) liabilities.

12 PUBLIC SECTOR STAFFING

12.1 The Structure of Public Service

The Cook Islands Public Service as at April 2012 consisted of the following categories of government agencies:

Public Service Ministries - Departments that fall within the ambit of the Public Service Act 2009 namely, the:

- Office of the Public Service Commissioner;
- Office of the Prime Minister ;
- Ministry of Agriculture ;
- Ministry of Cultural Development ;
- Ministry of Education ;
- Ministry of Health;
- Department of National Human Resources Development;
- Ministry of Justice;
- Ministry of Internal Affairs;
- Ministry of Infrastructure and Planning;
- Ministry of Transport;
- Ministry of Foreign Affairs and Immigration;
- Ministry of Finance and Economic Management; and
- Ministry of Marine Resources.

Outer Island Administrations

- Aitutaki
- Atiu
- Mauke
- Manihiki
- Mangaia
- Mitiaro
- Rakahanga
- Pukapuka
- Palmerston
- Penrhyn

Crown Agencies - Agencies responsible to their respective Boards or Minister namely:

- Crown Law;
- Parliament;
- Police Department;
- Office of the Ombudsman;
- Audit Office;
- Business and Trade Investment Board;
- Ministry of Environment;
- Cook Islands Tourism Corporation;
- Head of State;

- Financial Intelligence Unit;
- Cook Islands Investment Corporation;
- Cook Islands National Superfund;
- Cook Islands Pearl Authority; and
- Financial Services Development Authority

Ministerial Support Offices – Political support offices that exist to provide support services to their respective Minister namely:

- Prime Minister Puna’s Support Office;
- Minister Brown’s Support Office;
- Minister Heather’s Support Office;
- Minister Bishop’s Support Office; and
- Minister Glassie’s Support Office

12.2 Public Service Numbers, Demography and Vacancies

The total number of active employees within government as at end April 2012 was 1,726. The information collected throughout this chapter was provided to OPSC by the government agencies mentioned in this analysis. A breakdown of employee by type of agency is outlined in Table 12.1.

Table 12.1 – No. of employees by agency type

Ministries	Island Administrations	Crown Agencies	Ministerial Support Offices	Total
1043	401	258	24	1726

Of the 1,726, 54 per cent were male and 46 per cent were female, however this is not reflected evenly across the agencies. Table 12.2 outlines the gender split by agency.

Table 12.2 – Employee Demography by Agency Type

Category	No. Of Positions	No. Of Employees	Female	Male	No. Of Vacant Positions
Public Service Ministries	1076	1043	602	441	33
Island Administrations	433	401	60	341	7
Crown Agencies	272	258	117	141	14
Ministerial Support Office	25	24	10	14	1
TOTAL	1806	1726	789	937	55

Tables 12.3 show an overall of 55 vacant positions across government with the majority showing in Ministries. The table outlines where the vacancies lie.

Table 12.3 – Funded Vacancies by Ministry as at end April 2012

	Agency	Vacancies
Ministries	Agriculture	1
	Cultural Development	1
	Education	5
	Health	2
	Internal Affairs	1
	Justice	4
	Foreign Affairs and Immigration	2
	Finance and Economic Management	9
	Infrastructure and Planning	4
	Office of the Public Service Commissioner	2
	Office of the Prime Minister	1
	Transport	1
Island Administration	Aitutaki	2
	Manihiki	3
	Mauke	1
	Palmerston	1
Crown Agencies	Audit	3
	BTIB	1
	Ombudsman	1
	Environment	3
	Police	6
	Deputy Prime Minister's Office	1

Source: Government Agencies

12.3 Diversity Groups

Table 12.4 – Non Cook Islanders without PR status employed in the Public end April 2012

Ministry/Office	Executive	Senior	Intermediate	Junior	Total
Crown Law	1				1
Education	6	6	34	3	49
FSC	2				2
Health	1	12	18	1	32
Marine Resources			1	3	4
MFEM	2	2	2	1	7
NHRD		1			1
OPSC		1			1
Tourism Corporation	1				1
Total	13	22	55	8	98

Total employees in Rarotonga and the Pa Enea Public Sector including Crown Funded Agencies stood at 1,726. Within this workforce, 104 (6 per cent) of employees are non Cook Islanders who do not hold PR status. At least 5 per cent of persons within this residency status category are employed by Ministry of Education and Ministry of Health with 31 per cent holding senior level jobs.

Note: Residency status does not reflect the changes in status to permanent Residence for some employees in this category as of the Jan 2012 PR ceremony.

12.4 Salary Ranges

Under Section 27 of the *Public Service Act 2009* the salary range for a position is determined by the Public Service Commission in accordance with the remuneration system approved by Cabinet at that time.

The data used for this section is from the MFEM payroll for mid May 2012.

The number of payees differs from the count of employees quoted in Table 12.1 as it includes a number of additional payees including Parliamentarians, Public Service Commissioner, HOMs, Outer Island Secretaries, staff from Ministerial Support Offices and Ministers and excludes Cook Islands Tourism Corporation employees who are not covered under the MFEM payroll, but this will change from 1 July 2012.

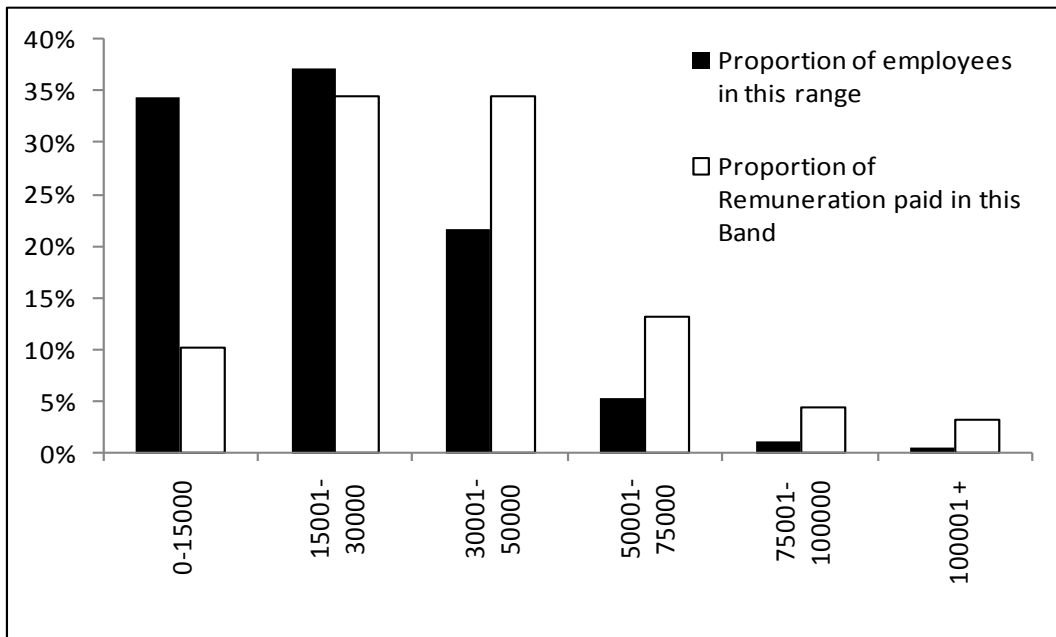
Table 12.5 shows an annualized figure of the MFEM payroll based on the number of payees paid by the Crown totalling to \$44.7 million as at mid May 2012. This annualisation is for illustrative purposes only.

Table 12.5 – Cook Islands Government Remuneration as at May 2012

Salary Band	# Salary	# Wages	# Total	%Employees	% Annualised Remuneration
0-15000	476	183	659	34%	10%
15001-30000	689	22	711	37%	34%
30001-50000	413	1	414	22%	34%
50001-75000	101	0	101	5%	13%
75001-100000	23	0	23	1%	4%
100001 +	10	0	10	1%	3%
Total Employee Count	1,712	206	1,918	100%	100%

Source: MFEM

Chart 12.1 – Cook Islands Government Remuneration as at May 2012



Source: MFEM

The payee count of 1,918 differs from the number in Table 12.1. Total Number of Active Employees is due to data incompatibility between what was reported to OPSC by Government Departments and Crown Agencies in April

2012 and the number of payees actually paid by Government payroll as at May 2012.

12.5 Heads of Ministries and Chief Executives

There are currently 44 Heads of Ministries and Chief Executives throughout the agencies of government, of these:

- 1 Public Service Commissioner;
- 14 Head of Ministries;
- 10 Head of Island Administrations;
- 14 Head of Crown Agencies; and
- 5 CEOs in Ministerial Support Offices.

The establishment of the HOMs POBOC with the Office of the Public Service Commissioner will provide the Commissioner the legislative mandate over the determination of salaries for those HOMs under OPSC. It will also provide the Commissioner a better understanding on how much funds are expended on HOMs salaries and entitlements thus making this information more transparent.

12.6 Service Delivery Positions

According to data received from government agencies, there are around 493 frontline staff directly providing services to the community (approx. 28 per cent of total employees in the Government), these include:

- 250 Teachers - that includes principals, basic teachers, deputy principals, ECE teachers, PA/Trainee teachers, teacher aides and counsellors;
- 116 Nurses – that includes charge nurses, compassionate care-givers, enrolled nurses, midwife, nurse aide, nurse practitioner, public health nurses and registered nurses;
- 26 Medical Officers (doctors); and
- 101 Police Officers.

12.7 Limitations of this Chapter

Every effort has been made to ensure the accuracy of this information. There may be some discrepancies between this chapter and the information contained in budget book number two and they are predominantly due to timing of the production of the documents.

12.8 Future Directions in OPSC

Human Resource Information Management System

Because of the degree of differences within government ministries regarding HR Information Management Systems, OPSC in collaboration with MFEM will commence the process of centralising human resource information management, with the first phase of securing a procurement of an electronic HRIMS to be used primarily by OPSC, MFEM and Ministries to manage payroll and human resource management.

Reviewing and Strengthening the Job Sizing System

OPSC is currently planning to review the existing government job evaluation and remuneration system. The review will evaluate the gaps within the current system and will also look at establishing relativities among jobs and classification levels within government which would seek to recognise and capture both local and international contexts.

13 OFFICIAL DEVELOPMENT ASSISTANCE BUDGET 2012/15

13.1 Introduction

In line with the Cook Islands Official Development Assistance (ODA) Policy 2011, this new presentation is intended to improve the ability of stakeholders (particularly Parliament and the public) to scrutinise the outcomes and become aware of forward plans for the use ODA. The ODA programme has performed well this year and estimated expenditure for 2012/13 is expected to reach \$29 million continuing an upward trend from 2009/10 - \$7.7 million and 2010/11 - \$17 million. Note the 2009 and 2010 actual figures under estimate ODA as they do not include grants in kind (China) and funds not channelled through MFEM (ADB grants) bank account.

Refer to Tables 13.39 – 13.46.

The 2011/12 Supplementary Budget allocation for ODA was \$44,931,637. There is a difference of approximately \$15 million between the budget allocation and estimated expenditure. Most of the unspent ODA funds will be re-appropriated into the 2012/13 budget thus giving a higher than usual budget appropriation of \$47,498,150. The main programmes that will be carrying forward allocations are;

- China Grant funds allocated \$14 million in 2011/12 with estimated expenditure of \$780,000. \$13.2 million has been re-allocated to 2012/13;
- Japan Pacific Environment Community Funds for Renewable Energy allocated \$2.2 million in 2011/12 with estimated expenditure of \$200,000. \$2 million has been carried forward into 2012/13;
- AUSAID Climate Change Funds (PASAP) allocated \$765,000 with estimated \$100,000 expenditure. \$645,000 to be carried forward into 2012/13;
- AUSAID Climate Change funds for Northern Group Community tanks allocated \$650,000 in 2011/12 with no expenditure as project re-programmed for 2012/13. \$650,000 to be carried forward into 2012/13;
- Adaptation Fund (SRIC) 2011/12 allocation of \$1,126,100 with estimated \$448,440 expenditure. Balance and full grant re-allocated 2012 to 2015;
- New Zealand Aid Programme renewable energy programme allocated \$2 million in 2011/12 with \$1 million estimated expenditure; and
- New Zealand Aid programme Cook Islands Technical Assistance Fund allocated \$800,000 in 2011/12 with estimated expenditure of \$400,000. Unspent fund carried over to 2012/13

There are also some projects that were allocated funds in the 2011/12 supplementary budget that were later not approved by the development partner. Notable among these were;

- Food and Agriculture Organisation (FAO) Food Security and Sustainable Livelihoods project was allocated \$1,126,100 and \$603,590 for Ministry of Marine Resources was in 2011/12 put on hold due to lack of funding from the FAO;
- European Union \$470,000 funding for Mitiaro water programme was declined. This has been reprogrammed in 2012/13.

Details of the individual programmes and projects are provided in this chapter. A summary by National Sustainable Development Plan (NSDP) goal is followed by relative contribution by development partner and then a full list of activities. Details of significant programs not reported in the capital initiatives book then complete this chapter.

Table 13.1 - ODA allocation by National Sustainable Development Goal

NSDP Goal	2011/12	2011/12			Total life	
	2011/12 Appropriation	Estimated Expenditure	Budget 2012/13	Budget 2013/14	Budget 2014/15	Time Activity Cost
Good Governance	1,398,540	1,285,200	1,235,000	950,000	650,000	4,140,200
Infrastructure	26,709,339	13,913,853	29,443,000	30,167,000	14,250,000	118,198,000
Opportunity	6,639,776	6,981,000	6,044,000	5,836,000	5,350,000	26,674,000
Resilient Communities	4,515,594	2,351,340	6,264,812	3,340,900	2,587,260	14,430,443
Safe Secure Society	1,566,000	1,469,000	995,838	255,000	255,000	2,869,000
Vibrant Economy	3,385,000	3,310,000	3,170,000	3,095,000	3,020,000	15,980,000
Environment	717,388	441,700	345,500	235,000	139,000	1,801,428
Grand Total	44,931,637	29,752,093	47,498,150	43,878,900	26,251,260	184,093,071

Chart 13.1 - ODA by Development Partner 2010/11 to 2014/15

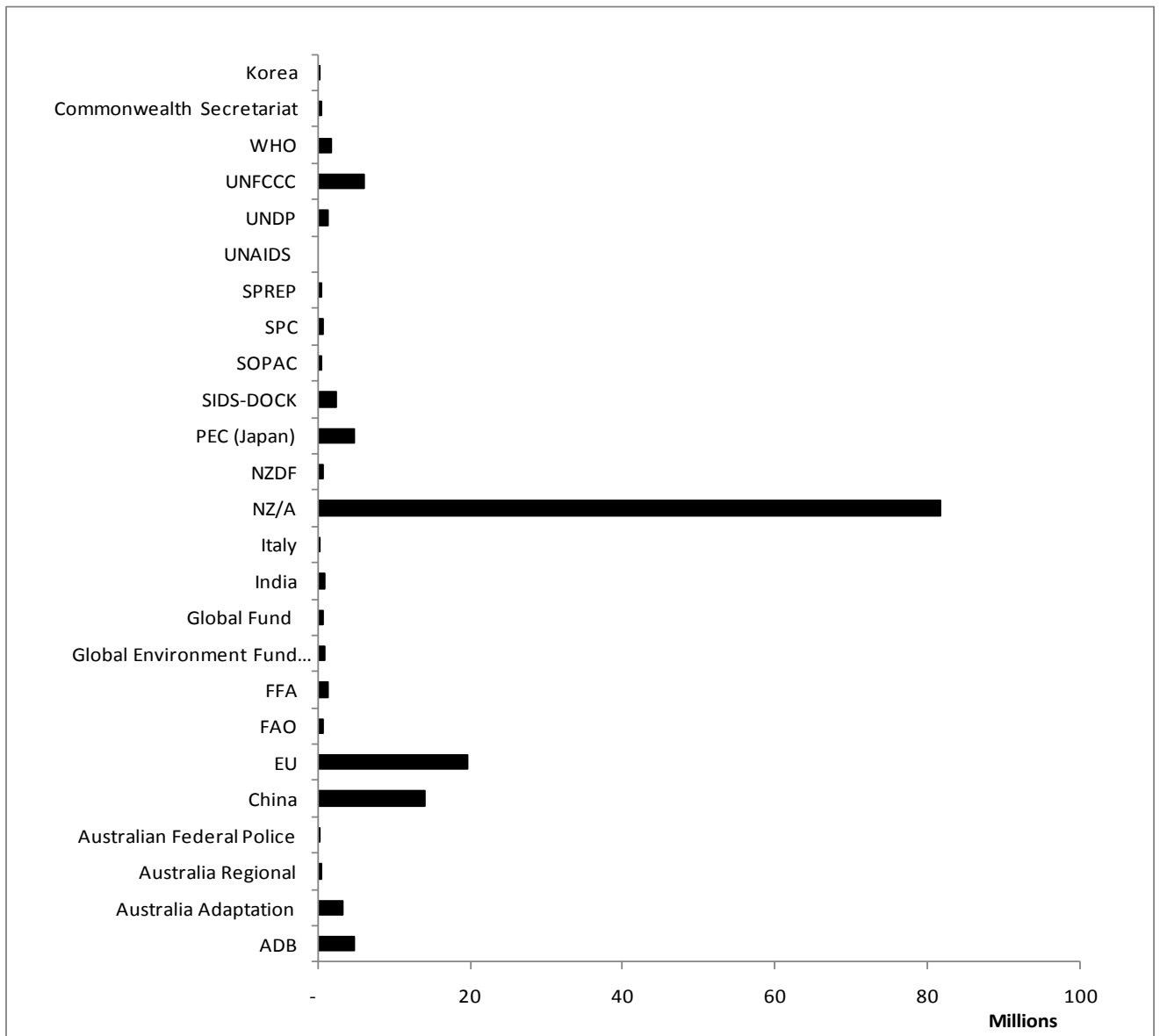


Table 13.2 - Cook Islands ODA by Sector

Sector	2011/12 Estimated spend	Budget 2012/13	Budget 2013/14	Budget 2014/15	Total Life Span Activity cost
Agriculture	223,200	223,200	223,200	0	670,800
Civil Society	635,000	650,000	650,000	650,000	2,585,000
Climate Change	100,000	645,500	0	0	745,500
Community services	71,900	558,000	150,000	150,000	810,000
Disaster Risk Management	3,612,000	0	0	0	5,400,000
Education	3,683,000	3,853,000	3,883,000	3,988,000	16,763,000
Energy	1,826,000	4,544,000	10,967,000	4,520,000	22,507,000
Environment	441,700	345,500	235,000	139,000	1,801,428
Health	1,401,800	1,324,112	1,175,700	1,285,700	5,192,143
Law & Order	1,469,000	995,838	255,000	255,000	2,869,000
Marine Resources	2,999,000	1,021,000	748,000	382,000	5,151,000
Public Administration	1,705,852	2,149,000	1,600,000	1,000,000	7,885,200
Social welfare	106,000	854,000	100,000	0	1,060,000
Tourism	3,000,000	3,000,000	3,000,000	3,000,000	15,000,000
Transport	5,192,000	835,000	0	650,000	11,390,000
Local government	44,000	40,000	0	0	190,000
Housing	453,201	0	0	0	6,041,000
Infrastructure	780,000	7,220,000	6,000,000	0	14,000,000
Water & Sanitation	1,560,000	16,580,000	13,200,000	9,080,000	58,080,000
Multi sector	448,440	2,660,000	1,692,000	1,151,560	5,952,000
Carry forward					
Grand Total	29,752,093	47,498,150	43,878,900	26,251,260	184,093,071

Please Note:

- **Total cost** is the estimated full cost of a capital initiative (project or program) taking into account all expenses to complete the capital initiative, this may be more or less than the total of budgets listed depending on timing differences.
- **4 year cost** is the estimated and projected costs of the four years (2011-2015) of this capital initiative plan (project or program). It can be different from 'Total cost'.

Table 13.3 - Cook Islands ODA Detail by Agency

Lead Agency, Activity Description	2011/12 Estimated spend	Budget 2012/13	Budget 2013/14	Budget 2014/15	Total life span activity cost
CI Pearl Authority	2,477,000	263,000	291,000	0	3,031,000
Pearl Industry Revitalisation	2,477,000	263,000	291,000	0	3,031,000
Ministry of Marine Resources	522,000	758,000	457,000	382,000	2,120,000
CI Fisheries Initiative (CIFI)	175,000	226,000			402,000
Fisheries Project Development Fund	202,000	362,000	362,000	362,000	1,288,000
Commissioner, legislation, TA	145,000	170,000	95,000	20,000	430,000
CI Tourism Corporation	3,000,000	3,000,000	3,000,000	3,000,000	15,000,000
Tourism Sector Support	3,000,000	3,000,000	3,000,000	3,000,000	15,000,000
Ports Authority	1,760,000	0	0	0	1,760,000
Alternative Jetty at Arorangi	1,760,000	0	0	0	1,760,000
Ministry of Education	3,683,000	3,853,000	3,883,000	3,988,000	16,763,000
Education Sector Partnership	3,070,000	3,240,000	3,270,000	3,375,000	14,311,000
Scholarships, Training Awards	613,000	613,000	613,000	613,000	2,452,000
Ministry of Health	1,401,800	1,324,112	1,175,700	1,285,700	5,192,143
Health Specialist Visits Programme	580,000	540,000	390,000	500,000	2,010,000
Strengthening Reproductive Health	150,000	150,000	150,000	150,000	600,000
Strengthening the management, prevention of TB in the Cook Islands	71,500	93,212	78,000	78,000	320,712
Management and prevention of HIV and STI	138,600	79,200	96,000	96,000	409,800
Establish multi-sectorial approach to profiling, planning, implementation and monitoring and evaluating initiatives to combat NCDs and associated risk factors	190,500	190,500	190,500	190,500	762,000
Human resources development (fellowships), non communicable diseases, healthy promotion, nutrition and tobacco control.	271,200	271,200	271,200	271,200	1,084,000
General support	0	0	0	0	5,631

Lead Agency, Activity Description	2011/12 Estimated spend	Budget 2012/13	Budget 2013/14	Budget 2014/15	Total life span activity cost
Ministry of Agriculture	223,200	223,200	223,200	0	670,800
The Agriculture Census and Statistics project, Food and Ornamental Crop Production	223,200	223,200	223,200	0	670,800
CI Police Service	443,000	260,000	120,000	120,000	1,843,000
Police Development Programme	300,000	0	0	0	1,200,000
CI Police Service HR development	0	60,000	0	0	60,000
Te Kukupa TA, operations	143,000	200,000	120,000	120,000	583,000
Other					
Programme carry forward previous years					
Ministry of Foreign Affairs and Immigration	911,200	7,220,000	6,000,000	0	14,131,200
China grants in kind	780,000	7,220,000	6,000,000	0	14,000,000
Korea Grant in kind	131,200				131,200
Ministry of Finance and Economic Management	4,476,900	5,658,838	8,285,000	4,365,000	22,860,000
Automated Border Management System	1,026,000	735,838	135,000	135,000	1,026,000
India Grant Fund	71,900	558,000	150,000	150,000	810,000
Water and Sanitation General Budget Support	0	4,080,000		4,080,000	8,160,000
Water Facility Grant	0	0	8,000,000	0	8,000,000
Pukapuka Cyclone Centre	3,200,000	0	0	0	4,400,000
MFEM systems improvements	149,000	80,000	0	0	229,000
Web tax lodgement System Revenue Management system enhancements	0	205,000	0	0	205,000
Accounting software for aid management	30,000				30,000
Ministry of Infrastructure and Planning	6,306,853	13,599,000	5,850,000	5,650,000	60,630,000
Aitutaki Recovery and Reconstruction plan	412,201	0	0	0	6,000,000
Mauke and Mitiaro Harbours	3,380,000	0	0	0	5,800,000
Northern Water Improvement program. Household supply	0	0	0	0	2,200,000
Red Cross National Centre	412,000	0	0	0	1,000,000

Lead Agency, Activity Description	2011/12 Estimated spend	Budget 2012/13	Budget 2013/14	Budget 2014/15	Total life span activity cost
Renewable Energy programme support	0	0	650,000	0	1,300,000
Technical Assistance	34,652	0	0	0	60,000
Water sector support NZ	0	5,000,000	0	0	5,000,000
Waste Management and Sanitation improvement program	1,460,000	3,000,000	3,000,000	5,000,000	27,920,000
Integrated Water Resources Management (IWRM)	100,000	200,000	200,000	0	500,000
Pacific Adaptation to Climate Change (PACC) Cook Islands	52,000	835,000	0	0	3,180,000
Water Supply (FAP)	0	3,000,000	2,000,000	0	5,000,000
Improved infrastructure service delivery technical assistance	456,000	264,000	0	0	720,000
Northern Water Improvement programme - Community water tank upgrades (2011 carry fwd)	0	650,000	0	0	650,000
Mangaia water upgrades	0	650,000	0	0	650,000
Penrhyn Coastal Harbour upgrade	0	0	0	650,000	650,000
Office of the Prime Minister	2,459,440	7,889,500	12,009,000	5,671,560	28,135,500
Energy Transformation	0	0	2,330,000	0	2,330,000
PV Ministry grids	200,000	1,260,000	3,390,000	0	4,850,000
Renewable Energy programme support	1,000,000	2,500,000	4,000,000	4,000,000	11,500,000
Strengthening Resilience of Island Communities	448,440	2,660,000	1,692,000	1,151,560	5,952,000
Community Centred Sustainable Development plans	44,000	40,000	0	0	190,000
Power sector study, EIA, verifications. (PIGGAREP)	106,000	244,000	77,000	0	427,000
Climate change office, coastal adaptation needs analysis, planning and policy	100,000	645,500	0	0	745,500
Aitutaki Early Recovery	41,000	0	0	0	41,000
Promoting Energy Efficiency in the Pacific	520,000	540,000	520,000	520,000	2,100,000
Financial Services Commissioner	165,000	0	0	0	550,000
Online Companies Registry	165,000	0	0	0	550,000
Public Service Commissioner	740,000	1,600,000	1,600,000	1,000,000	5,960,000
CI Technical Assistance Facility (PSTAF)	400,000	1,300,000	1,300,000	1,000,000	5,000,000
Public Sector Functional Review	340,000	300,000	300,000	0	960,000

Lead Agency, Activity Description	2011/12 Estimated spend	Budget 2012/13	Budget 2013/14	Budget 2014/15	Total life span activity cost
Ministry of Internal Affairs	741,000	1,504,000	750,000	650,000	3,645,000
Social welfare review, protection of the vulnerable	106,000	854,000	100,000	0	1,060,000
Social Impact Fund (replaces NGO and community initiatives scheme)	635,000	650,000	650,000	650,000	2,585,000
National Environment Service	441,700	345,500	235,000	139,000	1,801,428
Conservation Management of Island Biodiversity	144,000	168,000	96,000	0	408,000
Prevention, control and management	0	126,000	139,000	139,000	404,000
Building Capacity for Sustainable Land management	200,000	30,000	0	0	500,000
Institutional Strengthening for Ozone depletion	0	0	0	0	46,428
Preparation for national adaptation to climate change (2nd Nat Com and 3/4 national report)	75,000	0	0	0	85,000
Persistent Organic Pollutants POPs	22,700	21,500	0	0	358,000
Grand Total	29,752,093	47,498,150	43,878,900	26,251,260	184,093,071

13.2 ODA Activity Detail

This ODA budget detail chapter should be read in conjunction with the new three year capital initiatives budget as detail of aid funded infrastructure projects are not presented in this chapter. The capital amount indicated on the following tables shows this. Recurrent amounts are costs of ongoing operations and maintenance. Grants refer to amounts paid over to organisations through contestable funds or as one off capital inputs. Carry forwards are used to indicate that a previously appropriated ODA budget has been delayed, timing has been renegotiated and the budget is being carried forward to a future financial year.

Reducing delays in employing available ODA for productive use is being addressed by moving the focus from project level administration towards program, sector and general budget support and incentive approaches. These modalities focus efforts on achieving results, rather than administering inputs which are managed by Cook Islands country systems. This transition, has been trailed with the NZ and Australian aid programme (NZ/A) where sector support in is now the norm, providing resources to Education, Tourism and Pearl revitalisation. Sector support approaches are currently being developed for water/sanitation and renewable energy to coordinate the resources of partners (e.g. China, NZ/Australia, EU, Japan, UN agencies) including ODA, lending and technical assistance.

Securing ODA for sector and national approaches requires communicating longer term intentions to development partners. The 2011 Public Expenditure and Financial Accountability Assessment (PEFA) demonstrated the capacity of Cook Islands government systems, and the Public Financial Management (PFM) roadmap seeks to address weaknesses. Longer term capital investment is clarified in the new medium term (2012-2015) capital initiatives budget. This replaces annual capital works funds (e.g. CAPEX) and is expected to contribute to more confident and strategic action in priority development areas such as water, sanitation and renewable energy.

With the significance of the impact of climate change becoming generally accepted by the international community, new international development resources can be expected to become available over the coming decades. These will likely be available through the adaptation and mitigation funds created by the United Nations Framework Convention on Climate Change (UNFCCC). The medium term capital initiatives plan holds much promise as a cost effective way to convert these additional resources into greater resilience by funding Cook Islands adaptation and mitigation programs rather than project level interventions.

Further activity detail follows below and in the capital initiatives budget.

13.3 Office of the Prime Minister (OPM)

Table 13.4 - Adaptation Fund – Strengthening the Resilience of our Island Communities to Climate Change (SRIC) – OPM

	Total cost	2011/12	2012/13	2013/14	2014/15
Capital works	\$1,552,000	0	\$1,260,000	\$292,000	0
ICT	\$237,000	0	\$237,000	0	0
Recurrent expenses	\$4,163,000	\$448,440	\$1,163,000	\$1,400,000	\$1,151,560
Total	\$5,952,000	\$448,440	\$2,660,000	\$1,692,000	\$1,151,560

Funded from carbon credits from parties to the UN Framework Convention on Climate Change (UNFCCC) this activity is managed by the Director of Climate Change based in the new Climate Change Division of the OPM. This new initiative aims to strengthen the ability of Cook Island communities and the public service to make better informed decisions on the impacts of climate change and disaster risk reduction (especially the anticipated increase in extreme cyclone events). Results expected include;

- risk and vulnerability assessment updated at national level and adequate risk reduction systems in place;
- groups participating in adaptation and risk reduction awareness activities;
- community livelihood (increased economic opportunity) strategies strengthened;
- integration of both disaster risk reduction (DRR) and climate change adaptation (CCA) in national, island and community policies, plans and work programmes;
- training of key players at national, island and community levels;
- joint national action plan consistent with island development plans of the pa enua; and
- implementation of island level climate-change adaptation and disaster risk management action plans.

Table 13.5 - Community Centered Sustainable Development Programme

	Total cost	2011/12	2012/13	2013/14	2014/15
Capital	0	0	0	0	0
Recurrent expenses	\$190,000	\$44,000	\$40,000	0	0
Total	\$190,000	\$44,000	\$40,000	0	0

This UN Development Programme (UNDP) activity started in 2008 aimed to build capacity of local governance systems to effectively sustainably manage their natural and cultural resources to support livelihoods in a manner that promotes gender equality, gender equity and the achievement of the Millennium Development Goals. Overall objectives were to:

- build gender-sensitive community capacity;
- contribute to sustainably managed environmental and income-generating initiatives (example: fences for farming);
- promote community-led planning processes; and
- build an eco-friendly economy that incorporates climate change adaptation and risk-reduction measures.

The programme worked on Island and Village sustainable development plans with communities, marginalized groups (e.g. youth, women, elderly, disabled, etc.) and

supported community-led climate change adaptation activities in Mitiaro and Mauke. In 2012 a community agreed priority will be funded in each island.

Table 13.6 - Early Recovery Programme

	Total Cost	2011/12	2012/13	2013/14	2014/15
Capital	0	0	0	0	0
Recurrent expenses	\$41,000	\$41,000	0	0	0
Total	\$41,000	\$41,000	0	0	0

United Nations Development Programme (UNDP) funding in 2010/ 11 to support Aitutaki recovery post cyclone Pat. The project supported the Recovery Committee in the following areas:

- strengthen early recovery coordination;
- disaster risk reduction;
- restore livelihoods; and
- strengthen local governance.

Table 13.7 - Pacific Adaptation Strategic Assistance Programme (PASAP)

	Total Cost	2011/12	2012/13	2013/14	2014/15
Carried forward	0	0	0	0	0
Capital	0	0	0	0	0
Recurrent expenses	\$745,500	\$100,000	\$645,500	0	0
Total	\$745,500	\$100,000	\$645,500	0	0

Funded by the AusAID managed Climate Change Adaptation Fund this programme provides resources to establish the Climate Change Division within the Office of the Prime Minister. Other projects to be implemented from this fund are the Aversa Foreshore Extreme Weather Event Vulnerability Assessment and selected Outer Islands Vulnerability Assessments for disaster risk reduction. Both these projects are in progress and due to be completed by the end of 2012. Partners include the National Environment Service and The Cook Islands Red Cross and the Ministry of Infrastructure and Planning.

13.4 Office of the Public Service Commissioner

Table 13.8 - Cook Islands Technical Assistance Facility (CITAF)

	Total cost	2011/12	2012/13	2013/14	2014/15
Capital	0	0	0	0	0
PSTAF Recurrent (From 2008)	\$468,897	0	0	0	0
Recurrent expenses	\$3,000,000	\$800,000	\$1,130,000	\$1,070,000	\$1,000,000
Total	\$3,468,897	\$800,000	\$1,130,000	\$1,070,000	\$1,000,000

New Zealand and Australia funds. In December 2012 CITAF superseded the Public Sector Technical Assistance Fund (PSTAF). This contestable public sector fund supports priority action by sourcing and funding specialist and technical expertise not available within

existing Crown resources. The outcomes anticipated are improved efficiencies, service delivery quality and skill transfer.

Table 13.9 - Public Sector Functional Review TA7646/7958

	Total cost	2011/12	2012/13	2013/14	2014/15
Carried forward	0	0	0	0	0
Capital	0	0	0	0	0
Recurrent expenses	0	\$340,000	\$300,000	\$300,000	0
Phases one and two	\$960,000	\$340,000	\$300,000	\$300,000	0
Total	\$960,000	\$680,000	\$600,000	\$600,000	0

Grant funding managed by the Asian Development Bank (ADB) Japan Fund for Poverty Reduction and the Technical Assistance Special Fund. The Office of the Public Service Commissioner facilitated a functional review of the Cook Islands public sector in 2011 (USD 300,000) and identified areas where the public service structures were not aligned to delivering on government core functions and priorities. As a result, further technical assistance (USD 500,000) is provided to develop more responsive and cost effective scope, structure and size of four selected sectors of the Cook Islands public service as aligned to national priorities. Actions expected are that the

- The Government of the Cook Islands implement new public service functional and organisational structures for four sectors;
- The Government of the Cook Islands implement changes to outer Island administration; and
- The development of an effective public services policies and procedures manual.

The operational priorities of ADB's Pacific Approach 2010-2014 include improving the supply and delivery of urban services and strengthening the government's core functions to improve public sector effectiveness. ADB's country partnership strategy (CPS) for the Cook Islands 2008-2012 shares the same focus. The intended outcomes of the CPS are improved economic and social infrastructure and public service delivery. One of the aims of the Pacific Approach 2010-2014 is to assist the government to recognize and strengthen core government functions to help strengthen public sector effectiveness. This is also a priority of Te Kaveinga Nui' the Cook Islands current National Strategic Development Plan. This project forms part of a staged approach to implement public sector reforms to meet the goals of the NSDP and the Pacific Approach (www.adb.org).

13.5 Ministry of Finance and Economic Management

Table 13.10 - Technical Co-operation Facility TCF

	Total cost	2011/12	2012/13	2013/14	2014/15
Carried forward	\$229,130	\$149,078	\$80,052	0	0
Capital	0	0	0	0	0
Recurrent expenses	0	0	0	0	0
Total	\$229,130	\$149,078	\$80,052	0	0

European Development Fund (EDF) – Programmed for six months from March ending September 2012 – budgeted for 18 months subject to an extension to the Technical

Cooperation Fund (TCF) financing agreement by the EU. Key objectives include; Budget Support Advisor/s to implement GBS programme, opening ceremony Pukapuka Centre, technical studies, assistance and training and development and also includes 2011/12 amount of \$69,293 appropriated to Agriculture.

Table 13.11 - India Grant Fund

	Total cost	2011/12	2012/13	2013/14	2014/15
Carried forward	0	0	0	0	0
Capital	0	0	0	0	0
Recurrent expenses	0	0	0	0	0
Grants	\$810,000	\$71,900	\$558,000	\$150,000	\$150,000
Total NZD	\$810,000	\$71,900	\$558,000	\$150,000	\$150,000

Since 2006, the Indian government has granted the Cook Islands USD100,000 annually for Socio-Economic Sustainable Development projects. This was increased in 2009 to USD125,000 annually. To date eight projects (USD151,800) have been approved and in April 2012 the National Sustainable Development Commission (NSDC) authorised proposals totalling the accumulated (USD464,824) balance to be forwarded to India for final approval.

13.6 Ministry of Foreign Affairs and Immigration

Table 13.12 - China Grant Facility

	Total cost	2011/12	2012/13	2013/14	2014/15
Appropriation	0	\$14,000,000	0	0	0
Carry forward	0	-\$13,220,000	0	0	0
Capital	\$13,000,000	\$180,000	\$6,820,000	\$6,000,000	0
Recurrent expenses	\$1,000,000	\$600,000	\$400,000	0	0
Total	\$14,000,000	\$1,560,000	\$7,220,000	\$6,000,000	0

Appropriated in 2011/12 this funding is primarily an in kind grant facility as confirmed by the Government of China however, a request for a cash grant of 1,000,000 to assist with the hosting the Pacific Islands Forum Leaders meeting in August 2012. The Ministry of Education furniture (180,000) was the only capital project delivered in 2011/12 with the remainder of the funds to be dispersed over the following two years. Current projects planned for delivery in the near future is the Manihiki Pearl Equipment (\$1 million), heavy plant and equipment for the pa enua (\$5.9 million) and airports upgrades on Atiu and Manihiki (\$6 million).

Table 13.13 - Korean grant - cars and computers

	Total cost	2011/12	2012/13	2013/14	2014/15
Capital	\$131,200	\$131,200	0	0	0
Recurrent expenses (includes depreciation)	\$98,502	0	\$32,834	\$32,834	\$32,834
Total	\$229,702	\$131,200	\$32,834	\$32,834	\$32,834

The grant in kind was a goodwill gesture by Korea as international relations begin to be developed with the Cook Islands following diplomatic visits to this country by Korea's former

Ambassador to NZ, H E Mr Kwang-II Noh, in December 2010 and then again in April 2011. The gifts (3 Hyundai i45 Sedans and 16 Dell computers) were allocated by cabinet given to assist MFAI to improve professional foreign affairs, immigration and protocol services for Government. Value has been estimated by MFAI based on landed costs for similar car and computer models. Note that 1 computer has allocated to the office of the Deputy Prime Minister for the Seabed Minerals Project.

13.7 Ministry of Education

Table 13.14 - Education Sector Partnership Arrangement

	Total cost	2011/12	2012/13	2013/14	2014/15
Capital	\$180,000	\$180,000	\$360,000	0	0
Recurrent expenses	\$14,311,000	\$2,899,000	\$2,880,000	\$3,270,000	\$3,375,000
Total	\$14,491,000	\$3,079,000	\$3,240,000	\$3,270,000	\$3,375,000

This whole of sector approach funded by New Zealand and Australia includes primary, secondary and tertiary activities, short term training awards and school refurbishments. Capital investment is programmed for computers (\$360,000), with a new administration building and equipment (China \$1.2 million + furniture) completed in 2011/12.

An independent review was completed in 2012 finding that “capacity to improve education delivery is constrained by lack of funds but current funding was found to be efficiently used on existing activities”. While development partners have increased aid to the Cook Islands, support for the education sector has declined as a percentage of total Crown expenditure. In 2008-2009, 9.2 per cent went to education, compared to 7.3 per cent in 2011-2012. The review suggests government allocate a greater portion of its budget to education. The Cook Islands Investment Corporation (CIIC) “budget for the education sector is inadequate. It struggles to cover essential health and safety maintenance”. In response, a capital budget for school upgrades is now included for the 2012-15 planning period.

The review found that tertiary education is not “adequately legislated”, funding is low, there are limited mechanisms for transitioning secondary school students into further education or employment, and significantly, there are issues with “teacher quality and supply”. The 2012 merger of the National Human Resources department (responsible for tertiary strategy) into the Ministry is expected to streamline progress in this area. The review holds the Ministry in high regard of the preservation and teaching of Cook Islands Maori, but notes that CI Maori curricula are “constrained by a lack of Maori reading resources”. It concludes that moving to a New Zealand correspondence school model requires improved technology and faster broadband. In response, ICT upgrades for Education are programmed in the 2012-2015 capital initiatives budget.

The review acknowledges that while considerable progress has been made in support of students with learning difficulties, the Ministry should hire the services of a diagnostic specialist to assess students who struggle academically. Interestingly, the review identified a need to bring boys up to speed with girls. Although nationally, literacy and numeracy progress is on track to achieve 2015 targets, it is not uniform indicating special interventions are still necessary in some areas/schools – especially for boys,”. For example there is a need to strength life skills programmes in the north and vocational training on Aitutaki. A review

of pa enua education resources is recommended, in an effort to encourage school leavers to remain on their home islands. The evaluation report further calls on parents to encourage learning in the home.

The Ministry is considering recommendations to widen the scope of subject choices, review options for pa enua students who wish to remain on their home islands and practice a particular vocation, improve information and communication technology so as to offer greater opportunities to isolated learners, implement a 'community learning policy' to direct non-formal and life skills learning, accelerate resource development for Cook Islands Maori courses, and lower the age of compulsory education to three (as opposed to three-and-a-half).

Table 13.15 - Scholarships and Training Awards

	Total cost	2011/12	2012/13	2013/14	2014/15
Carried forward	0	0	0	0	0
Capital	0	0	0	0	0
Recurrent expenses	\$2,452,000	\$613,000	\$613,000	\$613,000	\$613,000
Total	\$2,452,000	\$613,000	\$613,000	\$613,000	\$613,000

This activity is part of the New Zealand and Australian Aid Programme Education sector funding for scholarships. The programme is currently managed by the National Human Resources Development Division with the New Zealand Ministry of Foreign Affairs and Trade making direct funding payments to recipients and service providers. However, this will soon be outsourced to a service provider for the Pacific region. The current New Zealand reform initiative "reverse scholarships" is shaping the scheme whereby a student loan can be redeemed by the student returning and working within the home country.

13.8 Ministry of Health

Table 13.16 - Health Specialists Visits (HSV)

	Total cost	2011/12	2012/13	2013/14	2014/15
Carried forward	0	0	0	0	0
Capital	0	0	0	0	0
Recurrent expenses	\$2,010,000	\$580,000	\$540,000	\$390,000	\$500,000
Total	\$2,010,000	\$580,000	\$540,000	\$390,000	\$500,000

Funded from New Zealand and Australia Aid Programme the HSV programme brings specialist health services to patients and benefits local health and medical officers through peer-to-peer learning. The visits are predominantly from New Zealand, in full based specialists and are based upon the immediate national needs in consideration of their availability.

Table 13.17 - Strengthening Reproductive Health

	Total cost	2011/12	2012/13	2013/14	2014/15
Carried forward	0	0	0	0	0
Capital	0	0	0	0	0
Recurrent expenses	\$600,000	\$150,000	\$150,000	\$150,000	\$150,000
Total	\$600,000	\$150,000	\$150,000	\$150,000	\$150,000

This World Health Organisation (WMO) funded project is a component of the United Nations Development Assistance Framework (UNDAF) for the Pacific. This specifically addresses:

- population, gender, and sexual and reproductive health issues in our national policies, development frameworks and sector-wide approach programmes;
- increasing the availability of high-quality, comprehensive sexual and reproductive health information and services, including HIV prevention services, particularly for most at risk populations, including young people; and
- advancing gender equality and contributing to the empowerment of women and girls, to enable them to exercise their reproductive rights and to be free of discrimination and violence, through the provision of policy.

Table 13.18 - Multi-country Fight Against Tuberculosis

	Total cost	2011/12	2012/13	2013/14	2014/15
Carried forward	0	0	0	0	0
Capital	0	0	0	0	0
Recurrent expenses	\$320,712	\$71,500	\$93,212	\$78,000	\$78,000
Total	\$320,712	\$71,500	\$93,212	\$78,000	\$78,000

Global Fund support to continue strengthening management and prevention of tuberculosis in the Cook Islands by strengthen TB/HIV co-infection preparedness and training.

Table 13.19 - National HIV and STI Program

	Total cost	2011/12	2012/13	2013/14	2014/15
Carried forward	0	0	0	0	0
Capital	0	0	0	0	0
Recurrent expenses	\$409,800	\$138,600	\$79,200	\$96,000	\$96,000
Total	\$409,800	\$138,600	\$79,200	\$96,000	\$96,000

Global Fund support to continue strengthening the management, prevention of HIV and STI in the Cook Islands and achieve the following outcomes:

- strengthened capacity to develop, implement, monitor and evaluate multi sectoral national strategic plans in relation to HIV and STI;
- access to evidence-based treatment, care and support, e.g. Effective counselling in relation to HIV and other STI's including counselling and testing;
- access to the information and commodities required to prevent the transmission of blood-borne viruses; and
- access to male and female condoms and lubricants and the information on their use.

Table 13.20 - Prevention and Control of Non Communicable Disease

	Total cost	2011/12	2012/13	2013/14	2014/15
Carried forward	0	0	0	0	0
Capital	0	0	0	0	0
Recurrent expenses	\$762,000	\$190,500	\$190,500	\$190,500	\$190,500
Total	\$762,000	\$190,500	\$190,500	\$190,500	\$190,500

Managed by the Secretariat of the Pacific Community to combat Non-Communicable Diseases (NCD Hypertension, Diabetes etc) and associated risk factors in the region one. One in Ten Cook Islanders suffer from Diabetes. Funding from Australia and New Zealand is expected to reduce the prevalence, morbidity, disability and mortality from non-communicable diseases by 2 per cent per year over and above the existing trends until 2015. The project partner World Health Organisation (WHO) and has the following objectives:

- strengthening development and management of comprehensive multi-sectorial national NCD strategies;
- national level legislation, enforcement, policy, taxation, advocacy, structural environmental interventions;
- evidence-based interventions and outer island activities;
- social marketing/communication for behavioural change resources that support interventions; and
- workforce development, NCD Capacity, strengthened national level monitoring, evaluation and surveillance systems.

Table 13.21 – WHO Technical Cooperation

	Total cost	2011/12	2012/13	2013/14	2014/15
Carried forward	0	0	0	0	0
Capital	0	0	0	0	0
Recurrent expenses	\$1,084,800	\$271,200	\$271,200	\$271,200	\$271,200
Total	\$1,084,800	\$271,200	\$271,200	\$271,200	\$271,200

World Health Organisation(WHO) technical cooperation from country office in Samoa, Apia, focuses on human resources development (fellowships), non communicable diseases, healthy promotion, nutrition and tobacco control.

13.9 Ministry of Infrastructure and Planning

Table 13.22 - Infrastructure Service Delivery Improvement TA7287

	Total cost	2011/12	2012/13	2013/14	2014/15
Carried forward		0	0	0	0
Capital (CIIC)		0	\$135,000	0	0
Appropriation		0	0	0	0
Recurrent expenses		\$456,000	\$129,000	0	0
Total		\$456,000	\$264,000	0	0

This ADB managed technical assistance grant (US \$600,000) is to strengthen infrastructure sector governance, build capacity, and improve financial and operational management of

assets. It seeks to establish a governance framework supporting infrastructure management and development. Expected outcomes are:

- rigorous planning and investment criteria for vetting infrastructure proposals;
- an asset management regime (ICT upgrades 135,000 programmed for CIIC) with adequate resource allocations for asset maintenance and asset management plans that are independently audited annually; and
- institutional adjustments and reforms for ensuring sector sustainability through regulatory reviews of tariff regimes and private sector participation.

The initial work plan was agreed with the Government in March 2010. Inception and mid-term reports have been finalised. Progress has been delayed by elections, lack of consensus around the focus of change, Government's economic summit in April 2011 and the parallel functional review. The consulting team has also provided a briefing to the cabinet to help decide future implementation course. Government is working on the work plan for the balance of the TA (\$264,000).

13.10 Ministry of Internal Affairs

Table 13.23 - Social Welfare System Review

	Total cost	2011/12	2012/13	2013/14	2014/15
Capital	0	0	0	0	0
Recurrent expenses	\$1,060,000	\$106,000	\$854,000	\$100,000	0
Total	\$1,060,000	\$106,000	\$854,000	\$100,000	0

This is a regional programme for social protection of the vulnerable funded by the Japan Fund for Poverty Reduction (JFPR) managed by the Asian Development Bank (ADB). The project targets issues of mobilisation and equity in social welfare in the Cook Islands, the Marshall Islands, and Tonga. The Cook Islands results are;

- short-term support for vulnerable groups to alleviate the impact of recent economic crises and weakening informal safety nets;
- strengthen existing informal and semi-formal social safety net systems to build their resilience for future economic, social or environmental crises; and
- developing capacity of services for vulnerable population.

Table 13.24 - Social Impact Fund (SIF)

	Total cost	2011/12	2012/13	2013/14	2014/15
Carried forward	0	0	0	0	0
Capital	0	0	0	0	0
Recurrent expenses	\$2,585,000	\$635,000	\$650,000	\$650,000	\$650,000
Total	\$2,585,000	\$635,000	\$650,000	\$650,000	\$650,000

Funded by the New Zealand and Australia Bilateral Aid Programme the SIF replaces the Community Initiatives Scheme (CIS) and continues to provide grants for community projects (\$5,000 – \$20,000) for income generating initiatives that focus on organisational strengthening, community development and awareness. The move to internal affairs aims

to foster coordination with wider government and other development partner resources and facilitate alignment of funding for NGO and community services with national policy.

13.11 Ministry of Marine Resources (MMR)

Table 13.25 - Marine Resources Cook Islands Fisheries Incentive

	Total cost	2011/12	2012/13	2013/14	2014/15
Carried forward	\$226,000	0	\$226,000	0	0
Capital	0	0	0	0	0
Recurrent expenses	\$175,000	\$175,000	0	0	0
Grants	0	0	0	0	0
Total	\$401,000	\$175,000	\$226,000	0	0

The Fisheries Incentive Project is funded by an Australian Aid initiative where allocations are linked to programme performance. The funding is managed by MMR to provide resources for agreed programmes in national fisheries development.

Table 13.26 - US Fisheries Treaty - Fisheries Project Development Fund

	Total cost	2011/12	2012/13	2013/14	2014/15
Carried forward	0	0	0	0	0
Capital	0	0	0	0	0
Recurrent expenses	\$1,288,000	\$202,000	\$362,000	\$362,000	\$362,000
Total	\$1,288,000	\$202,000	\$362,000	\$362,000	\$362,000

As a part of the US Fisheries Treaty within the region, governments are allocated funds to support special projects. The Treaty is currently being re-negotiated and funding from this programme beyond June 2013 is assumed to continue.

Table 13.27 - Commonwealth Secretariat Seabed Minerals Program

	Total cost	2011/12	2012/13	2013/14	2014/15
Recurrent expenses	0	\$145,000	\$170,000	\$95,000	\$20,000
Total	\$430,000	\$145,000	\$170,000	\$95,000	\$20,000

This funding is provided by the Commonwealth Secretariat Technical Cooperation Facility to support the establishment of the seabed minerals advisor's position in the Ministry of Marine Resources. The support also includes salary and operational services (estimated in kind) such as:

- advisory services provided in kind; and
- support for Cook Islands application for extended continental shelf.

13.12 Ministry of Agriculture

Table 13.28 - Food Security Sustainable Livelihood Project

	Total cost	2011/12	2012/13	2013/14	2014/15
Appropriation withdrawn	-\$3,000,000	-\$3,000,000	0	0	0
Total	-\$3,000,000	-\$3,000,000	0	0	0

Though appropriated in 2011/12 the global financial situation has caused the indefinite postponement of this programme by the Food and Agriculture Organisation (FAO) and funding has been withdrawn.

Table 13.29 - Technical Food Cooperation Programme

	Total cost	2011/12	2012/13	2013/14	2014/15
Carried forward	0	0	0	0	0
Capital	0	0	0	0	0
Recurrent expenses	\$669,000	\$223,000	\$223,000	\$223,000	0
Total	\$669,000	\$223,000	\$223,000	\$223,000	0

Food and Agriculture Organisation (FAO) funding provided to support informed policy by sourcing timely and reliable information, promoting benefits of healthy eating from the consumption of leafy greens, fruits, and local crops through education and community awareness programmes and, strengthened internal bio-security with the provision of training and equipment. Local partners include MFEM Statistics Office, Ministry of Health and the Ministry of Education. Activities include;

- agriculture Census and Statistics project to strengthen the capability to develop a sustainable Food and Agriculture Statistics System; and
- food and ornamental crop production to enhance the capacity of commercial agricultural production enhance home gardening activities in the communities; strengthen the capacities of agriculture and extension officers.

13.13 Cook Islands Tourism Corporation

Table 13.30 - Tourism Sector Support

	Total cost	2011/12	2012/13	2013/14	2014/15
Capital	0	\$1,000,000	\$1,500,000	\$1,500,000	\$1,500,000
Recurrent expenses	0	\$2,000,000	\$1,500,000	\$1,500,000	\$1,500,000
Total	\$15,000,000	\$3,000,000	\$3,000,000	\$3,000,000	\$3,000,000

The tourism sector is widely recognised as a key driver of Cook Islands' economy. This New Zealand/Australia sector support is aligned with the Government's investments to deliver the destination development and marketing strategy. The expected results of the programme are:

- Cook Islands Tourism Master Plan;
- activities from events development strategy, cuisine development strategy, research and planning, training and education, tourism infrastructure development (see capital works budget), environmental management, and niche market development;
- Development of Aitutaki as a viable second destination;
- Atiu established as a viable third destination, Mangaia, Mitiaro, and Mauke enhanced as viable destinations;
- Support tourism development for the Northern Group Islands;
- maintain and increase market presence and awareness in key source markets underpinning the combined airline access and marketing strategy;
- market the Cook Islands destination effectively in key markets particularly in co-operative campaigns, trade and consumer shows, familiarization visits and public relations; and
- Increase economic activity in the Cook Islands through increased visitor numbers, length of stay and yield.

13.14 National Environment Service

Table 13.31 - Island Biodiversity Programme

	Total cost	2011/12	2012/13	2013/14	2014/15
Capital	0	0	0	0	0
Recurrent expenses	\$408,000	0	\$143,400	\$168,600	\$96,000
Total	\$408,000	0	\$143,400	\$168,600	\$96,000

This project is a regional multi-country project for the protection and conservation of biodiversity. Current activities in Rarotonga, Mangaia, Mitiaro and Mauke must contribute to the conservation ecosystems, species and genetic diversity in the Cook Islands. This Initiative is funded by the United Nations Development Programme (UNDP) to integrate conservation management.

Table 13.32 - Prevention, control and management of Invasive Alien Species

	Total cost	2011/12	2012/13	2013/14	2014/15
Carried forward	0	0	\$126,000	\$139,000	\$139,000
Capital	0	0	0	0	0
Recurrent expenses	0	0	0	0	0
Total	\$404,000	0	\$126,000	\$139,000	\$139,000

A regional funding initiative provided to assist the Ministry of Agriculture and partner government agencies to improve the management and control of pests, weeds and other invasive species. Activities are located in Rarotonga, Mangaia, Mitiaro and Mauke. Funded from Global Environment Fund resources and managed by the United Nations Development Programme (UNDP).

Table 13.33 - Sustainable Land Management (SLM)

	Total Cost	2011/12	2012/13	2013/14	2014/15
Carried forward	0	0	0	0	0
Capital	0	0	0	0	0
Recurrent expenses	\$500,000	\$200,000	\$30,000	0	0
Total	\$500,000	\$200,000	\$30,000	0	0

This is a Global Environment Facility (GEF) project for Capacity Building for Sustainable Land Management in the Cook Islands. Specifically this programme aims to enhance the capacity of government and its commitment to meet its obligations under global conventions.

Table 13.34 - Second National Communications (2NC) – Preparation for National Adaption and 3rd and 4th National Report

	Total Cost	2011/12	2012/13	2013/14	2014/15
Carried forward	0	0	0	0	0
Capital	0	0	0	0	0
Recurrent expenses	\$75,000	\$75,000	0	0	0
Total	\$75,000	\$75,000	0	0	0

United Nations Development Programme (UNDP). The Cook Islands Second National Communication (SNC) project began in 2006. The project was extended to April 2012 in order to complete activities. The project goals are directed at assisting the Cook Islands in preparing the Second National Communication under the United Nations Framework Convention on Climate Change (UNFCCC) reporting requirements. The main goals were:

- establishing an inventory of Green House Gases (GHG) emissions;
- developing programmes containing measures to facilitate adequate adaptation to, and mitigation of climate change;
- developing programmes and national action plans that are considered relevant for the achievement of the objectives of the UNFCCC;
- disseminating the importance of the 2010 Biological Diversity Targets signed by the Cook Islands in Rio 1992 for the progressive implementation of the Convention on Biological Diversity (CBD) at country level; and
- linking reporting on progress towards the 2010 target with progress in achieving other related global goals such as Millennium Development Goals.

Table 13.35 - Persistent Organic Pollutants (POPs)

	Total Cost	2011/12	2012/13	2013/14	2014/15
Carried forward	0	0	0	0	0
Capital	0	0	0	0	0
Recurrent expenses	\$358,000	\$22,700	\$21,500	0	0
Total	\$358,000	\$22,700	\$21,500	0	0

United Nations Development Programme (UNDP) funded project will end after removal of identified and stockpiled chemicals off the island (Costs will be \$16,000). Project completion is awaiting legislation for insurance cover.

13.15 CI Police Service

Table 13.36 - Police Development Programme

	Total cost	2011/12	2012/13	2013/14	2014/15
Capital	0	0	0	0	0
Recurrent expenses	\$1,260,000	\$300,000	\$60,000	0	0
Total	\$1,260,000	\$300,000	\$60,000	0	0

A 2006 Review of the Cook Islands National Police Department led to the development of a programme of assistance with partner New Zealand Police in 2008. In 2013/14 this funding will be moved from the New Zealand and Australian bilateral programme to a regional Police program. The programmes key objectives are to:

- build capacity within CI Police to deliver effective policing services while increasing trust and confidence within Cook Islands communities;
- strengthen governance at all levels within CI Police and build ownership of the community policing philosophy;
- implement sustainable management and policing practices that will contribute to a safe and secure Cook Islands in the medium to long term; and
- develop capability for CI Police to deliver effective policing services to all Cook Islanders, including the pa enua, as well as provide the technical and infrastructure support where required

This support includes a one off contribution (\$60,000, 2012/13) from the Australian Federal Police for human resource development in the Cook Islands Police Service.

Table 13.37 - Pacific Patrol Boat Project Te Kukupa – Police

Pacific Patrol Boat Project Te Kukupa – Police					
	Total cost	2011/12	2012/13	2013/14	2014/15
Carried forward	0	0	0	0	0
Capital	\$40,000	\$40,000	\$80,000	0	0
Recurrent expenses	\$103,000	\$103,000	\$120,000	\$120,000	\$120,000
Total	\$143,000	\$143,000	\$200,000	\$120,000	\$120,000

The Australian defence force (ADF) continues with the ongoing investment into the Pacific Patrol Boat Project (PPBP) by contributing \$120,000 in support of operation and patrol costs and an additional \$80,000 towards boat maintenance in the 12/13 appropriation. The overall PPBP is scheduled to conclude in 2018 with one final refit for the Kukupa planned for March 2014.

13.16 Cook Islands Pearl Authority (CIPA)

Table 13.38 - Pearl Revitalisation Program

Pearl Revitalisation Program					
	Total cost	2011/12	2012/13	2013/14	2014/15
Carried forward	0	0	0	0	0
Capital	\$1,000,000	0	\$1,000,000	0	0
Recurrent expenses	\$1,031,000	\$477,000	\$263,000	\$291,000	0
Grant (Loan funds Pearl exchange capital)	\$2,000,000	\$2,000,000	0	0	0
Total	\$4,031,000	\$2,477,000	\$ 1,263,000	\$291,000	0

Cook Islands pearl exports declined from \$18 million (2000) to under \$86,000 in 2011 due to disease outbreak (Manihiki, 2000) and trends of falling international prices. This initiative aims to reverse the negative economic and social impacts of this decline on the communities of Manihiki, Rakahanga and Penrhyn. NZ/A (\$3 million) support marketing, production (loans to farmers) and lagoon management compliments equipment (ropes/floats) funded by China (\$1 million). Partners include Business Trade and Investment Board (BTIB), Ministry of Marine Resources, Bank of the Cook Islands, Manihiki Pearl Farmers Association and Island Councils. The Crown provides a guarantee for the production credit scheme (\$500,000). Results anticipated include;

- production credit scheme (BCI loans) that farmers and pearl technicians use to increase production;
- a 'whole crop' marketing strategy (CIPA);
- Pearl Exchange expanded to handle the bulk of the harvest crop;
- Manihiki Pearl Farmers Association leading the industry;
- production capacity doubled (Manihiki) by 2013; and
- pearl harvest at the farm gate of \$6 million and exports of \$4.8 million by 2015.

Table 13.39 – Environment

Activity Description	Program	Development Partner	Total Activity Cost	2011/12 Estimated Spend	2012/13	2013/14	2014/15	2015/16
Preparation for national adaptation to climate change (2nd Nat Com and 3/4 national report)	Climate Change	Italy	85,000	75,000	0	0	0	0
Building Capacity for Sustainable Land management	NES	UNDP	500,000	200,000	30,000	0	0	0
Prevention, control and management	Invasive Alien species	Global Environment Fund (GEF)	404,000	0	126,000	139,000	139,000	0
Persistent Organic Pollutants POPs	NES	UNDP	358,000	22,700	21,500	0	0	0
Institutional Strengthening for Ozone depletion	NES	UNDP	46,428	0	0	0	0	0
Conservation Management of Island Biodiversity	NES	Global Environment Fund (GEF)	408,000	144,000	168,000	96,000	0	0

Table 13.40 - General

Activity Description	Program	Development Partner	Total Activity Cost	2011/12 Estimated Spend	2012/13	2013/14	2014/15	2015/16
AMD audited accounts								

Table 13.41 - Good Governance

Activity Description	Program	Development Partner	Total Activity Cost	2011/12 Estimated Spend	2012/13	2013/14	2014/15	2015/16
Cars (3) and computers (16)	Gift in kind	Korea	131,200	131,200	0	0	0	0
Social Impact Fund (replaces NGO and community initiatives scheme)	NZ and Australian Bilateral	NZ/A	2,585,000	635,000	650,000	650,000	650,000	0
Public Sector Functional Review	Technical Assistance Special Fund	ADB	960,000	340,000	300,000	300,000	0	0
MFEM systems improvements	EU Tech Coop Fund	EU	229,000	149,000	80,000	0	0	0
Web tax lodgement System Revenue Management system enhancements	PFM roadmap	NZ/A	205,000	0	205,000	0	0	0
Accounting software for Aid management	PFM roadmap	NZ/A	30,000	30,000	0	0	0	0

Table 13.42 - Infrastructure

Activity Description	Program	Development Partner	Total Activity Cost	2011/12 Estimated Spend	2012/13	2013/14	2014/15	2015/16
China grants in kind	China aid program	China	14,000,000	780,000	7,220,000	6,000,000	0	
Improved infrastructure service delivery technical assistance	Project Preparatory Tech Assistance (PPTA)	ADB	720,000	456,000	264,000	0	0	
Waste Management and Sanitation improvement program	Sanitation Improvement program	NZ/A	27,920,000	1,460,000	3,000,000	3,000,000	5,000,000	5,000,000
Water Supply (FAP)	Water Partnership	NZ/A	5,000,000	0	3,000,000	2,000,000	0	
Water sector support NZ	Water Partnership	NZ/A	5,000,000	0	5,000,000	0	0	
Water and Sanitation General Budget Support	Sanitation Improvement program	EU	8,160,000	0	4,080,000	0	4,080,000	0
Water Facility Grant	Sanitation Improvement program	EU	8,000,000	0	0	8,000,000	0	0
Integrated Water Resources Management (IWRM)	Pacific IWRM	SOPAC	500,000	100,000	200,000	200,000	0	0
Northern Water Improvement program. Household supply	Cyclone Recovery Reconstruction Plan 2005 (CRRP)	NZ/A	2,200,000	0	0	0	0	0
Northern Water Improvement programme - Community water tank upgrades (2011 carry forward)	Water Partnership	Australia Adaptation	650,000	0	650,000	0	0	0
Mangaia water upgrades	Water Partnership	Australia Adaptation	650,000	0	650,000	0	0	0

Activity Description	Program	Development Partner	Total Activity Cost	2011/12 Estimated Spend	2012/13	2013/14	2014/15	2015/16
Penrhyn Coastal Harbour upgrade	Climate Adaptation	Australia Adaptation	650,000	0	0	0	650,000	0
Renewable Energy programme support	CIREC	Australia Adaptation	1,300,000	0	0	650,000	0	650,000
Renewable Energy programme support	CIREC	NZ/A	11,500,000	1,000,000	2,500,000	4,000,000	4,000,000	4,000,000
Promoting Energy Efficiency in the Pacific	CIREC	ADB	2,100,000	520,000	540,000	520,000	520,000	0
Energy Transformation	CIREC	SIDS-DOCK	2,330,000	0	0	2,330,000	0	0
PV Mini grids	CIREC	PEC (Japan)	4,850,000	200,000	1,260,000	3,390,000	0	0
Power sector study, EIA, verifications. (PAGGAREP)	CIREC	SPREP	427,000	106,000	244,000	77,000	0	0
Pacific Adaptation to Climate Change (PACC) Cook Islands	Climate Adaptation	UNDP	3,180,000	52,000	835,000	0	0	0
Mitiaro Water upgrade	Millennium Development Goal Fund	EU	0	0	0	0	0	0
Alternative Jetty at Arorangi	Tourism Master Plan	NZ/A	1,760,000	1,760,000	0	0	0	0
Mauke and Mitiaro Harbours	Cyclone Recovery Reconstruction Plan 2005 (CRRP)	NZ/A	5,800,000	3,380,000	0	0	0	0
Red Cross National Centre	Cyclone Recovery Reconstruction Plan 2005 (CRRP)	NZ/A	1,000,000	412,000	0	0	0	0
Pukapuka Cyclone Centre	EU + EDF 10	EU	4,400,000	3,200,000	0	0	0	0
Technical Assistance	Cyclone Recovery	NZ/A	60,000	34,652	0	0	0	0

Activity Description	Program	Development Partner	Total Activity Cost	2011/12 Estimated Spend	2012/13	2013/14	2014/15	2015/16
	Reconstruction Plan 2005 (CRRP)							
Aitutaki Recovery and Reconstruction plan	NZ and Australian Bilateral	NZ/A	6,000,000	412,201	0	0	0	0
Aitutaki Early Recovery	Aitutaki Recovery program	UNDP	41,000	41,000	0	0	0	0

Table 13.43 - Opportunity

Activity Description	Program	Development Partner	Total Activity Cost	2011/12 Estimated Spend	2012/13	2013/14	2014/15	2015/16
Pearl Industry Revitalisation	Marine Resources Development	NZ/A	3,031,000	2,477,000	263,000	291,000	0	0
CI Fisheries Initiative (CIFI)	Marine Resources Development	Australia Regional	402,000	175,000	226,000	0	0	
Fisheries Project Development Fund	US Fisheries Treaty	FFA	1,288,000	202,000	362,000	362,000	362,000	0
Education Sector Partnership	Education Master Plan	NZ/A	14,311,000	3,070,000	3,240,000	3,270,000	3,375,000	0
Scholarships, Training Awards	Scholarships	NZ/A	2,452,000	613,000	613,000	613,000	613,000	
Community Centred Sustainable Development plans	Community Development	UNDP	190,000	44,000	40,000	0	0	0
CI Technical Assistance Facility (PSTAF)	NZ and Australian Bilateral	NZ/A	5,000,000	400,000	1,300,000	1,300,000	1,000,000	0

Table 13.44 - Resilient Communities

Activity Description	Program	Development Partner	Total Activity Cost	2011/12 Estimated Spend	2012/13	2013/14	2014/15	2015/16
Climate change office, coastal adaptation needs analysis, planning and policy	Climate Adaptation	Australia Adaptation	745,500	100,000	645,500	0	0	0
Health Specialist Visits programme	Ministry of Health	NZ/A	2,010,000	580,000	540,000	390,000	500,000	0
Strengthening Resilience of Island Communities	Adaptation to Climate Change UNDP	UNFCCC	5,952,000	448,440	2,660,000	1,692,000	1,151,560	0
Food Security and Sustainable Livelihoods Project (FSSLP) for the population of the Cook Islands	Te One Kura	FAO	0	0	0	0	0	0
The Agriculture Census and Statistics project, Food and Ornamental Crop Production	Technical Food Cooperation program	FAO	670,800	223,200	223,200	223,200	0	0
Strengthening Reproductive Health	UN Development Assistance Framework	WHO	600,000	150,000	150,000	150,000	150,000	150,000
Strengthening the management, prevention of TB in the Cook Islands	Multi-country Fight Against Tuberculosis	Global Fund	320,712	71,500	93,212	78,000	78,000	0
Management and prevention of HIV and STI	Cook Islands National HIV and STI program	Global Fund	409,800	138,600	79,200	96,000	96,000	0

Activity Description	Program	Development Partner	Total Activity Cost	2011/12 Estimated Spend	2012/13	2013/14	2014/15	2015/16
General support	HIV program	UNAIDS	5,631	0	0	0	0	0
Establish multi-sectoral approach to profiling, planning, implementation and Monitoring and evaluating initiatives to combat NCDs and associated risk factors	Prevention and Control of Non Communicable Disease	SPC	762,000	190,500	190,500	190,500	190,500	0
Human resources Development (fellowships), non communicable diseases, healthy promotion, Nutrition and tobacco control	Programmes of Technical Cooperation	WHO	1,084,000	271,200	271,200	271,200	271,200	0
India Grant Fund	India	India	810,000	71,900	558,000	150,000	150,000	150,000
Social welfare review, protection of the vulnerable	Japan Fund for Poverty Reduction (ADB)	ADB	1,060,000	106,000	854,000	100,000	0	0

Table 13.45 - Safe Secure Society

Activity Description	Program	Development Partner	Total Activity Cost	2011/12 Estimated Spend	2012/13	2013/14	2014/15
Police Development programme	NZ and Australian Bilateral	NZ/A	1,200,000	300,000	0	0	0
Te Kukupa TA, operations	NZ Defence Force	NZDF	583,000	143,000	200,000	120,000	120,000
CI Police Service HR Development	CI Police restructuring	Australian Federal Police	60,000	0	60,000	0	0
Automated Border Management System	NZ and Australian Bilateral	NZ/A	1,026,000	1,026,000	735,838	135,000	135,000

Table 13.46 - Vibrant Economy

Activity Description	Program	Development Partner	Total Activity Cost	2011/12 Estimated Spend	2012/13	2013/14	2014/15	2015/16
Commissioner, legislation, TA	Sea Bed Minerals Development	Common wealth Secretariat	430,000	145,000	170,000	95,000	20,000	0
Tourism Sector Support	Tourism Master Plan	NZ/A	15,000,000	3,000,000	3,000,000	3,000,000	3,000,000	0
Online Companies Registry	Economic Development	NZ/A	550,000	165,000	0	0	0	0

STATEMENT OF FISCAL RESPONSIBILITY

Operating Revenue and Expenditure Statement for the year ended 30 June

All Values (\$'000)

	2011/12 Supplementary Estimates	2012/13 Budget Estimates	2013/14 Forecast	2014/15 Forecast
Operating Revenue				
Taxation Revenue	92,676	94,871	98,519	101,639
Other Crown Revenue	5,407	6,601	6,516	6,516
Trading Revenue	5,193	5,209	5,209	5,234
Interest on Loans to Subsidiaries	175	203	203	203
Dividends	3,051	2,100	2,170	2,247
Interest on Balances	2,247	1,824	1,824	1,824
Total Operating Revenue	108,749	110,809	114,441	117,662
Operating Expenditure				
Ministry Outputs	63,990	61,497	61,760	61,996
<i>Personnel</i>	44,153	42,545	41,992	42,016
<i>Operating</i>	16,552	15,467	15,944	16,015
<i>Depreciation</i>	3,284	3,485	3,825	3,965
Payments on Behalf of the Crown (<i>for Operating Expenses</i>)	40,213	43,182	42,615	42,558
Airport Authority	1,704	1,704	1,704	1,704
Airport Authority - Outer Island Airport Upgrades - Feasibility Study	0	206	0	0
Airport Authority - Upgrade Government VIP Lounge	0	330	0	0
Bank of the Cook Islands	181	181	181	181
Ports Authority - Infrastructure	0	200	1,110	50
Te Aponga Uira	350	350	350	350
Debt Servicing Interest	969	993	938	839
Building Maintenance	1,300	1,800	1,800	1,800
Crown Infrastructure Depreciation	2,469	3,478	5,074	6,935
Disaster/ Contingency Operating Expenses	140	100	100	100
Total Operating Expenses	111,316	114,022	115,632	116,513
Fiscal Operating Surplus/(Shortfall)	-2,567	-3,213	-1,191	1,149

STATEMENT OF FISCAL RESPONSIBILITY
Financing and Applications Statement for the year ended 30 June
All Values (\$'000)

	2011/12 Supplementary Estimates	2012/13 Budget Estimates	2013/14 Forecast	2014/15 Forecast
Reductions in Net Borrowings				
Loan Disbursements	-14,334	-7,550	-9,500	-32,000
Loan Repayments	2,821	3,416	4,337	4,574
Loan Repayments by Subsidiaries	0	0	-87	-187
	-11,513	-4,134	-5,250	-27,614
Capital Expenditures				
Ministries and Outer Islands (Including CIIC Capital)	3,065	4,888	4,476	3,646
Infrastructure Capital Investment in SOEs				
<i>Airport Authority</i>	344	344	344	344
<i>Te Aponga Uira</i>	800	800	800	800
Contingency	50	50	50	50
	4,259	6,082	5,670	4,840
Foreign Aid				
Receipts	-44,932	-47,498	-43,879	-26,251
Expenditure	44,932	47,498	43,879	26,251
	0	0	0	0
Other Committed Considerations				
Economic Restructure Package (Expenditure of ADB Loan)	8,038	7,550	0	0
Expenditure of China Loans	0	0	9,500	20,000
Expenditure of European Investment Bank Loans	0	0	0	12,000
Increase in Reserve Trust Fund	450	474	493	508
Transfer to Emergency Response Trust Fund	200	0	0	0
On-Lent Loans to Ports Authority	6,296	0	0	0
ADB Share Capital	27	27	27	27
	15,010	8,051	10,019	32,535
Total	7,757	9,999	10,439	9,762
To be Funded by				
Operating Surplus	-2,567	-3,213	-1,191	1,149
Depreciation	5,753	6,963	8,899	10,900
Loan Reserve Financing	1,429	1,529	1,237	1,237
Drawdown from Reserve Trust Fund	200	0	0	0
Aitutaki Recycling Fund	58	0	0	0
Total Funding Items	4,873	5,279	8,945	13,287
Net Surplus/Shortfall	-	2,884	-	4,720
			1,494	3,525

Schedule 1 (a)
Comparative Analysis of Ministry Appropriations

Ministry	Supplementary Estimates 2011/12			Budget Estimates 2012/13			Gross Operating Variance	
	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation	Amount	per cent
Agriculture	999,985	90,535	909,450	878,330	90,535	787,795	-121,655	-12.2%
Audit (PERCA)	1,038,746	178,700	860,046	1,023,422	178,700	844,722	-15,324	-1.5%
Crown Law	644,197	0	644,197	614,932	0	614,932	-29,265	-4.5%
Cultural Development	937,705	150,000	787,705	861,683	175,000	686,683	-76,022	-8.1%
Business Trade and Investment Board	707,201	0	707,201	679,002	0	679,002	-28,199	-4.0%
Education	10,091,906	0	10,091,906	9,957,271	0	9,957,271	-134,635	-1.3%
Environment	1,061,589	16,000	1,045,589	1,025,001	20,000	1,005,001	-36,588	-3.4%
Finance and Economic Management	3,181,834	453,500	2,728,334	3,070,111	453,500	2,616,611	-111,723	-3.5%
Financial Services Development Authority	443,178	0	443,178	433,415	0	433,415	-9,763	-2.2%
Foreign Affairs	1,630,397	8,000	1,622,397	1,628,985	8,000	1,620,985	-1,412	-0.1%
Head Of State	217,881	0	217,881	210,281	0	210,281	-7,600	-3.5%
Health	10,428,378	400,000	10,028,378	10,092,313	400,000	9,692,313	-336,065	-3.2%
Infrastructure and Planning	2,743,870	194,156	2,549,714	2,408,733	183,326	2,225,407	-335,137	-12.2%
Internal Affairs	1,283,910	2,000	1,281,910	1,146,955	6,000	1,140,955	-136,955	-10.7%
Justice	1,928,222	456,935	1,471,287	1,875,183	467,765	1,407,418	-53,039	-2.8%
Marine Resources	1,385,632	15,000	1,370,632	1,264,748	15,000	1,249,748	-120,884	-8.7%
Ombudsman	245,821	0	245,821	239,141	0	239,141	-6,680	-2.7%
Parliamentary Services	589,901	8,419	581,482	599,345	8,419	590,926	9,444	1.6%
Pearl Authority	502,387	0	502,387	482,026	0	482,026	-20,361	-4.1%
Police	3,628,697	49,360	3,579,337	3,588,856	69,360	3,519,496	-39,841	-1.1%
Prime Minister's Office	1,145,013	0	1,145,013	1,116,194	0	1,116,194	-28,819	-2.5%
Public Service Commission	473,809	0	473,809	419,057	0	419,057	-54,752	-11.6%
Tourism Corporation	4,296,425	50,000	4,246,425	4,179,446	0	4,179,446	-116,979	-2.7%
Transport	768,253	36,000	732,253	675,626	36,000	639,626	-92,627	-12.1%
CIIC	0	0	0	0	0	0	0	0.0%
Total Ministries	51,061,318	2,108,605	48,952,713	48,470,056	2,111,605	46,358,451	-2,591,262	-3
Outer Islands (<i>Refer Schedule 1 (b)</i>)	11,081,853	3,084,354	7,997,499	11,215,302	3,097,635	8,117,667	133,449	1.2%
MINISTERIAL SUPPORT								
Prime Minister	370,000	0	370,000	375,250	0	375,250	5,250	1.4%
Deputy Prime Minister	310,000	0	310,000	310,000	0	310,000	0	0.0%
Minister Mark Brown	325,000	0	325,000	285,000	0	285,000	-40,000	-12.3%
Minister Teariki Heather	205,000	0	205,000	205,000	0	205,000	0	0.0%
Minister Nandi Glassie	205,000	0	205,000	205,000	0	205,000	0	0.0%
Minister Teina Bishop	205,000	0	205,000	205,000	0	205,000	0	0.0%
Leader Of Opposition	205,000	0	205,000	205,000	0	205,000	0	0.0%
Capital Distribution Fund - <i>Administered by MFEM</i>	21,420	0	21,420	21,420	0	21,420	0	0.0%
Gross Total	63,989,591	5,192,959	58,796,632	61,497,028	5,209,240	56,287,788	-2,492,563	-3.9%

Schedule 1 (b)
Comparative Analysis of Outer Islands Appropriations

Ministry	Supplementary Estimates 2011/12			Budget Estimates 2012/13			Gross Operating Variance	
	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation	Amount	%
Aitutaki	1,415,493	48,250	1,367,243	1,517,774	48,250	1,469,524	102,281	7.2%
Autitaki Power Supply	2,213,333	1,864,293	349,040	2,213,333	1,864,293	349,040	0	0.0%
Atiu	1,194,315	264,620	929,695	1,194,315	264,620	929,695	0	0.0%
Mangaia	1,556,569	387,522	1,169,047	1,556,569	387,522	1,169,047	0	0.0%
Manihiki	819,912	117,200	702,712	821,912	119,200	702,712	2,000	0.2%
Mauke	932,907	142,576	790,331	932,907	142,576	790,331	0	0.0%
Mitiaro	573,082	61,700	511,382	577,032	65,650	511,382	3,950	0.7%
Palmerston	330,886	22,100	308,786	348,773	22,100	326,673	17,887	5.4%
Penrhyn	592,672	75,500	517,172	592,672	75,500	517,172	0	0.0%
Pukapuka-Nassau	958,356	41,140	917,216	965,687	48,471	917,216	7,331	0.8%
Rakahanga	480,578	59,453	421,125	480,578	59,453	421,125	0	0.0%
Outer Island Capital Fund - Administered by MFEM	13,750	0	13,750	13,750	0	13,750	0	0.0%
Gross Total	11,081,853	3,084,354	7,997,499	11,215,302	3,097,635	8,117,667	133,449	1.2%

**Schedule 2
Benefits and Other Unrequited Expenses**

Category of Benefit	Supplementary Estimates	Budget Estimates	Variance	
	2011/12	2012/13	Amount	%
Welfare Payments	12,495,360	13,095,800	600,440	4.8%
Parliamentary Superannuation	220,000	180,000	-40,000	18.2%
Total Benefits and Other Unrequited Expenses	12,715,360	13,275,800	560,440	4.4%

**Schedule 3
Borrowing Expenses and Debt Repayment**

	Supplementary Estimates	Budget Estimates	Variance	
	2011/12	2012/13	Amount	%
Gross Debt Servicing (see Schedule 9)	3,790,000	4,409,642	619,642	16.3%
Total Borrowing Expenses and Debt Repayment	3,790,000	4,409,642	619,642	16.3%

**Schedule 4
Other Expenses**

Category of Expense	Supplementary Estimates	Budget Estimates	Variance	
	2011/12	2012/13	Amount	%
Airport Authority	1,704,000	1,704,000	0	0.0%
Bank of the Cook Islands	181,000	181,000	0	0.0%
Te Aponga Uira	350,000	350,000	0	0.0%
Building Maintenance	1,300,000	1,800,000	500,000	38.5%
Contingency Funds - Capital Expenditure	50,000	50,000	0	0.0%
Contingency Funds - Operating	140,000	100,000	-40,000	28.6%
Crown Infrastructure Depreciation	2,469,000	3,478,150	1,009,150	40.9%
Expenditure of ADB Loan	14,333,548	7,550,000	-6,783,548	47.3%
Foreign Aid	44,931,637	47,498,150	2,566,513	5.7%
ADB Share Capital	26,600	26,600	0	0.0%
Transfer to Reserve Trust Fund	450,115	474,357	24,242	5.4%
Total Other Expenses	67,279,897	65,092,254	-2,187,643	-3.3%

Summary

Category of Payment	Supplementary Estimates	Budget Estimates	Variance	
	2011/12	2012/13	Amount	%
Schedule 1 - Ministry Outputs (Gross), POBOCs and Capital Expenditure (Excluding Benefits and other Unrequited Expenses)	94,552,219	96,291,437	1,739,218	1.8%
Schedule 2 - Benefits and Other Unrequited Expenses	12,715,360	13,275,800	560,440	4.4%
Schedule 3 - Borrowing Expenses and Debt repayment	3,790,000	4,409,642	619,642	16.3%
Schedule 4 - Other Expenses	67,279,897	65,092,254	-2,187,643	-3.3%
TOTAL APPROPRIATIONS	178,337,476	179,069,133	731,657	0.4%

Schedule 5
Analysis of Ministry's by Output

MINISTRY	Supplementary Estimate 2011/12			Budget Estimate 2012/13			Gross Change
	Gross Expenditure	Trading Revenue	Net Appropriation	Gross Expenditure	Trading Revenue	Net Appropriation	
AGRICULTURE							
Administration	203,848	0	203,848	108,292	0	108,292	-95,556
Crop Research and Development	329,511	30,000	299,511	305,801	30,000	275,801	-23,710
Bio-Security Management	307,982	59,535	248,447	328,454	59,535	268,919	20,472
Policy and Projects	58,136	1,000	57,136	74,790	0	74,790	16,654
Livestock Development	100,509	0	100,509	60,993	1,000	59,993	-39,516
	999,986	90,535	909,451	878,330	90,535	787,795	-121,656
AUDIT (PERCA)							
Crown Audit	174,892	30,000	144,892	159,302	15,000	144,302	-15,590
Ministries, Crown Agencies and SOE Audits	558,236	143,700	414,536	493,296	148,700	344,596	-64,940
Special Reviews and Investigations	252,218	5,000	247,218	332,912	15,000	317,912	80,694
Corporate Services	0	0	0	37,912	0	37,912	37,912
	985,346	178,700	806,646	1,023,422	178,700	844,722	38,076
CROWN LAW							
Legal Advisory	283,447	0	283,447	270,571	0	270,571	-12,876
Litigation	212,585	0	212,585	202,927	0	202,927	-9,658
Legislative Drafting	148,165	0	148,165	141,434	0	141,434	-6,731
	644,197	0	644,197	614,932	0	614,932	-29,265
CULTURAL DEVELOPMENT							
Corporate Services	0	0	0	322,790	6,000	316,790	322,790
Cultural National Identity	413,238	7,500	405,738	272,366	158,000	114,366	-140,872
Cultural Heritage	127,665	10,000	117,665	132,168	6,000	126,168	4,503
Public Records and National Bibliography	132,536	15,000	117,536	134,359	5,000	129,359	1,823
	673,439	32,500	640,939	861,683	175,000	686,683	188,244
BUSINESS TRADE and INVESTMENT BOARD							
Business Support	158,000	0	158,000	159,451	0	159,451	1,451
Maximising Trade Opportunities	125,000	0	125,000	114,451	0	114,451	-10,549
Foreign Direct Investment (FDI) Participation	280,201	0	280,201	98,451	0	98,451	-181,750
Regulation and Compliance	41,000	0	41,000	46,237	0	46,237	5,237
Finance and Administration Support	103,000	0	103,000	260,410	0	260,410	157,410
	707,201	0	707,201	679,002	0	679,002	-28,199

MINISTRY	Supplementary Estimate 2011/12			Budget Estimate 2012/13			Gross Change
	Gross Expenditure	Trading Revenue	Net Appropriation	Gross Expenditure	Trading Revenue	Net Appropriation	
EDUCATION							
Taku Ipukarea Kia Rangatira	240,145	0	240,145	290,108	0	290,108	49,963
Learning and Teaching	816,660	0	816,660	713,116	0	713,116	-103,544
Learning and the Community	423,080	0	423,080	432,700	0	432,700	9,620
Infrastructure and Support	8,612,021	40,000	8,572,021	8,257,300	0	8,257,300	-354,721
Corporate Services				264,046	0	264,046	
	10,091,906	40,000	10,051,906	9,957,271	0	9,957,271	-134,635
ENVIRONMENT (TU'ANGA TAPOROPORO)							
Advisory and Compliance	306,033	16,000	290,033	354,812	10,000	344,812	48,779
Island Futures	389,917	0	389,917	310,761	10,000	300,761	-79,157
Corporate Services	365,639	0	365,639	359,429	0	359,429	-6,210
	1,061,589	16,000	1,045,589	1,025,001	20,000	1,005,001	-36,588
FINANCE AND ECONOMIC MANAGEMENT							
Fiscal Advice	272,484	0	272,484	113,754	0	113,754	-158,730
Fiscal and Economic Management	826,875	3,500	823,375	808,509	3,500	805,009	-18,366
Taxation	1,446,834	450,000	996,834	1,280,855	450,000	830,855	-165,979
Statistics	309,034	0	309,034	282,532	0	282,532	-26,502
Development Coordination	326,607	0	326,607	279,487	0	279,487	-47,120
Corporate Services	0	0	0	304,974	0	304,974	304,974
	3,181,834	453,500	2,728,334	3,070,111	453,500	2,616,611	-111,723
FOREIGN AFFAIRS AND IMMIGRATION							
Enhancing Cook Islands relations with New Zealand and the Pacific	606,500	0	606,500	129,193	0	129,193	-477,308
Promoting Cook Islands interests in the Broader International community	387,210	0	387,210	129,376	0	129,376	-257,835
Promoting Cook Island regional and International trade Policy Interests	266,569	0	266,569	82,693	0	82,693	-183,876
Enhance Participation in Global Institutions	131,275	8,000	123,275	98,471	0	98,471	-32,804
Responsible and Effective Management of Immigration Service Administration, Protocol and Overseas Representation	238,843	0	238,843	253,945	0	253,945	15,102
				935,308	8,000	927,308	935,308
	1,630,397	8,000	1,622,397	1,628,985	8,000	1,620,985	-1,412
HEAD OF STATE							
Administrative Support	217,881	0	217,881	210,281	0	210,281	-7,600

MINISTRY	Supplementary Estimate 2011/12			Budget Estimate 2012/13			Gross Change
	Gross Expenditure	Trading Revenue	Net Appropriation	Gross Expenditure	Trading Revenue	Net Appropriation	
	217,881	0	217,881	210,281	0	210,281	-7,600
HEALTH							
Community Health Services	1,829,727	90,000	1,739,727	1,727,216	90,000	1,637,216	-102,511
Hospital Health Services	5,675,741	300,000	5,375,741	5,608,747	300,000	5,308,747	-66,994
Outer Islands Health Services	1,954,183	10,000	1,944,183	2,029,571	10,000	2,019,571	75,388
Funding and Planning	968,727	0	968,727	726,779	0	726,779	-241,948
	10,428,378	400,000	10,028,378	10,092,313	400,000	9,692,313	-336,065
INFRASTRUCTURE and PLANNING							
Policy and Programmes	447,774	0	447,774	449,565	0	449,565	1,791
Regulatory Services	439,906	46,840	393,066	141,907	36,010	105,897	-298,000
Civil Works	1,407,709	0	1,407,709	1,389,992	147,316	1,242,676	-17,717
Funding and Planning	0	0	0	427,269	0	427,269	427,269
	2,295,389	46,840	2,248,549	2,408,733	183,326	2,225,407	113,344
INTERNAL AFFAIRS							0
Welfare Payments	286,935	0	286,935	285,197	0	285,197	-1,738
Social Policy	285,506	0	285,506	262,121	0	262,121	-23,385
Labour and Employment	121,030	2,000	119,030	117,783	6,000	111,783	-3,247
Consumer	79,370	0	79,370	72,287	0	72,287	-7,083
Civil	153,061	0	153,061	143,601	0	143,601	-9,460
Censorship	63,019	0	63,019	68,493	0	68,493	5,474
Corporate Services	0	0	0	197,473	0	197,473	197,473
	988,921	2,000	986,921	1,146,956	6,000	1,140,956	158,035
JUSTICE							
Court and Tribunal Services	347,803	110,000	237,803	470,810	110,000	360,810	123,007
Land Administration	357,791	131,900	225,891	320,828	142,730	178,098	-36,964
Registry Services	126,705	151,335	-24,630	134,532	151,335	-16,804	7,827
Prison Services	529,450	63,700	465,750	507,361	63,700	443,661	-22,090
Probation Services	214,285	0	214,285	217,866	0	217,866	3,581
Corporate and ICT Services	352,188	0	352,188	223,788	0	223,788	-128,400
	1,928,222	456,935	1,471,287	1,875,183	467,765	1,407,418	-53,039
MARINE RESOURCES							
Offshore Fisheries	189,560	0	189,560	198,578	0	198,578	9,018
Pearl Industry Support	286,339	5,000	281,339	271,579	5,000	266,579	-14,760
Inshore Fisheries and Aquaculture	415,261	10,000	405,261	393,658	10,000	383,658	-21,603
Policy and Legal Services	171,550	0	171,550	92,400	0	92,400	-79,150

MINISTRY	Supplementary Estimate 2011/12			Budget Estimate 2012/13			Gross Change
	Gross Expenditure	Trading Revenue	Net Appropriation	Gross Expenditure	Trading Revenue	Net Appropriation	
Corporate Services	322,922	0	322,922	308,533	0	308,533	-14,389
	1,385,632	15,000	1,370,632	1,264,748	15,000	1,249,748	-120,884
OMBUDSMAN							
Receipt and effective investigation of complaints received or instigated by Ombudsman under the Ombudsman Act 1984	97,386	0	97,386	71,161	0	71,161	-26,226
Receipt and effective investigation of complaints received by the Ombudsman under the Official Information Act 2008	86,586	0	86,586	59,493	0	59,493	-27,093
Receipt and effective investigation of complaints received under the Disability Act 2008	6,186	0	6,186	36,162	0	36,162	29,976
Education and Awareness of the Investigative Regime of the Ombudsman	49,477	0	49,477	36,162	0	36,162	-13,315
Establishment of Human Rights Division	6,186		6,186	36,162		36,162	29,976
	245,821	0	245,821	239,141	0	239,141	-6,681
PARLIAMENTARY SERVICES							
Financial Managements (Civil list, Legislative Service PLPG and HOA and Koutu Nui	0	0	0	359,608	8,419	351,189	359,608
Parliament Administration and Services	339,899	8,419	331,480	149,836	0	149,836	-190,064
Inter-Parliamentary Development and PLPG	137,182	0	137,182	89,902	0	89,902	-47,280
	477,081	8,419	468,662	599,345	8,419	590,926	122,264
PEARL AUTHORITY							
Farm Support	21,147	0	21,147	17,000	0	17,000	-4,147
Pearl Standards and Quality Control	64,400	0	64,400	55,535	0	55,535	-8,866
Marketing Strategy	115,000	0	115,000	108,000	0	108,000	-7,001
Industry Reform and Development	10,500	0	10,500	10,500	0	10,500	0
Management and Support Services	291,340	0	291,340	290,992	0	290,992	-348
	502,387	0	502,387	482,026	0	482,026	-20,361
POLICE							
Proactive multi agency and community approach to problem solving	612,072	0	612,072	575,946	0	575,946	-36,126
Intelligence led approach to Crime and Crash reduction	1,103,343	49,360	1,053,983	1,098,246	69,360	1,028,886	-5,097
Quality investigations and prosecutions	594,023	0	594,023	591,337	0	591,337	-2,686
Corporate Services	808,252	0	808,252	798,668	0	798,668	-9,584
Maritime Policing	511,007	0	511,007	524,659	0	524,659	13,652
	3,628,697	49,360	3,579,337	3,588,856	69,360	3,519,496	-39,841
PRIME MINISTER'S OFFICE							
Central Policy and Planning Office	215,783	0	215,783	204,532	0	204,532	-11,252

MINISTRY	Supplementary Estimate 2011/12			Budget Estimate 2012/13			Gross Change
	Gross Expenditure	Trading Revenue	Net Appropriation	Gross Expenditure	Trading Revenue	Net Appropriation	
Cabinet Services and Government Representative	280,101	0	280,101	267,603	0	267,603	-12,499
Renewable Energy Development Division	108,977	0	108,977	95,809	0	95,809	-13,168
Corporate Services	282,630	0	282,630	177,735	0	177,735	-104,895
Information and Communication Technology	151,367	0	151,367	141,748	0	141,748	-9,619
Emergency Management Cook Islands	106,155	0	106,155	105,542	0	105,542	-613
Climate Change Cook Islands	0	0	0	65,500	0	65,500	65,500
Outer Islands Local Government	0	0	0	57,726	0	57,726	
	1,145,013	0	1,145,013	1,116,194	0	1,116,194	-28,819
PUBLIC SERVICE COMMISSION							
Good Governance	237,346	0	237,346	185,252	0	185,252	-52,094
Human Resources	56,608	0	56,608	50,281	0	50,281	-6,327
Performance Management	114,501	0	114,501	116,522	0	116,522	2,021
Corporate Services	0	0	0	67,002	0	67,002	67,002
	408,455	0	408,455	419,057	0	419,057	10,602
TOURISM CORPORATION							
Head Office	3,188,757	50,000	3,138,757	1,699,909	0	1,699,909	-1,488,848
Destination Market	990,077	0	990,077	2,151,180	0	2,151,180	1,161,103
Destination Development	117,591	0	117,591	328,357	0	328,357	210,766
	4,296,425	50,000	4,246,425	4,179,446	0	4,179,446	-116,979
TRANSPORT							
Civil Aviation	156,974	0	156,974	84,052	0	84,052	-72,922
Maritime Transport	129,660	0	129,660	122,387	0	122,387	-7,273
Meteorological Service	339,378	36,000	303,378	327,408	36,000	291,408	-11,970
Finance and Administration	142,241	0	0	141,779	0	141,779	-462
	768,253	36,000	590,012	675,626	36,000	639,626	-92,627
FINANCIAL SERVICES DEVELOPMENT AUTHORITY							
Develop Cook islands financial Service Industry	443,178	0	443,178	433,415	0	433,415	0
	443,178	0	443,178	433,415	0	433,415	-9,763
OUTER ISLANDS							
Aitutaki							
Infrastructure	829,589	43,250	786,339	58,978	0	58,978	-770,611
Energy	244,294	0	244,294	233,374	0	233,374	-10,920
Finance and Administration	233,790	0	233,790	933,003	43,250	889,753	699,213

MINISTRY	Supplementary Estimate 2011/12			Budget Estimate 2012/13			Gross Change
	Gross Expenditure	Trading Revenue	Net Appropriation	Gross Expenditure	Trading Revenue	Net Appropriation	
Island Council	59,394	0	59,394	82,435	3,000	79,435	23,041
Women, Youth, Sport, Culture	57,561	0	57,561	57,145	0	57,145	-416
Agriculture	81,908	3,000	78,908	152,839	2,000	150,839	70,931
	1,506,536	46,250	1,460,286	1,517,774	48,250	1,469,524	11,238
Aitutaki Power Supply							
Electricity Supply	2,213,333	1,864,293	349,040	2,213,333	1,864,293	349,040	0
	2,213,333	1,864,293	349,040	2,213,333	1,864,293	349,040	0
Atiu							
Agriculture	92,100	11,000	81,100	88,353	11,000	77,353	0
Infrastructure	540,370	18,000	522,370	532,322	18,000	514,322	-8,048
Energy	330,089	197,120	132,970	330,815	197,120	133,695	726
Corporate	178,031	3,500	174,531	184,624	3,500	181,124	6,593
Island Council	53,725	35,000	18,725	58,201	35,000	23,201	4,476
	1,194,315	264,620	929,696	1,194,315	264,620	929,695	-1
Mangaia							
Agriculture	113,199	4,900	108,299	178,098	6,400	171,698	64,899
Tourism and Community Development	35,949	5,779	30,170	56,012	7,779	48,233	20,063
Infrastructure Amenities	605,579	97,500	508,079	585,809	96,530	489,279	-19,770
Public Utilities	538,876	274,730	264,146	541,760	272,200	269,560	2,884
Finance and Administration	150,047	1,000	149,047	140,724	1,000	139,724	-9,323
Island Council	52,919	3,613	49,306	54,166	3,613	50,553	1,247
	1,496,569	387,522	1,109,047	1,556,569	387,522	1,169,047	60,000
Manihiki							
Gender, Youth and Sports	16,518	200	16,318	16,518	200	16,318	0
Infrastructure	282,855	5,000	277,855	282,855	5,000	277,855	0
Energy	292,905	100,000	192,905	294,905	102,000	192,905	2,000
Finance and Administration	160,246	5,000	155,246	160,246	5,000	155,246	0
Island Council	42,290	5,000	37,290	42,290	5,000	37,290	0
Agriculture	25,098	2,000	23,098	25,098	2,000	23,098	0
	819,912	117,200	702,712	821,912	119,200	702,712	-0
Mauke							
Infrastructure	283,008	13,500	269,508	289,008	13,500	275,508	6,000
Energy	306,183	112,500	193,683	306,183	112,500	193,683	0
Water	67,406	0	67,406	67,406	0	67,406	0
Finance and Administration	123,230	12,500	110,730	123,230	12,500	110,730	0

MINISTRY	Supplementary Estimate 2011/12			Budget Estimate 2012/13			Gross Change
	Gross Expenditure	Trading Revenue	Net Appropriation	Gross Expenditure	Trading Revenue	Net Appropriation	
Agriculture	79,348	0	79,348	79,348	0	79,348	0
Gender and Development	17,328	0	17,328	17,328	0	17,328	0
Island Council	50,404	4,076	46,328	50,404	4,076	46,328	0
	926,907	142,576	784,331	932,907	142,576	790,331	6,000
Mitiaro							
Island Administration	121,473	350	121,123	124,723	350	124,373	3,250
Island Council	46,983	200	46,783	50,233	200	50,033	3,250
Social and Economic Growth	21,924	100	21,824	5,674	100	5,574	-16,250
Infrastructure	239,542	9,500	230,042	242,782	9,500	233,282	3,240
Energy	108,233	48,050	60,183	115,433	52,000	63,433	7,200
Agriculture	34,927	3,500	31,427	38,187	3,500	34,687	3,260
	573,082	61,700	511,382	577,032	65,650	511,382	3,950
Palmerston							
Island Administration	93,571	1,000	92,571	90,855	1,000	89,855	-2,716
Agriculture	12,193	0	12,193	12,193	0	12,193	0
Education	78,631	0	78,631	97,152	0	97,152	18,521
Energy	63,409	20,000	43,409	62,061	20,000	42,061	-1,348
Infrastructure	53,082	300	52,782	55,712	300	55,412	2,630
Island Council	30,000	800	29,200	30,800	800	30,000	800
	330,886	22,100	308,786	348,773	22,100	326,673	17,887
Penrhyn							
Gender, Youth and Sport	14,200	0	14,200	14,200	0	14,200	0
Infrastructure	127,462	6,000	121,462	127,462	6,000	121,462	0
Energy	232,680	69,500	163,180	232,680	69,500	163,180	0
Island Administration and Island Council	192,880	0	192,880	192,880	0	192,880	0
Agriculture	25,450	0	25,450	25,450	0	25,450	0
	592,672	75,500	517,172	592,672	75,500	517,172	0
Pukapuka and Nassau							
Infrastructure	529,189	8,300	520,889	530,411	10,300	520,111	1,222
Energy	89,920	16,000	73,920	91,142	16,000	75,142	1,222
Island Administration	159,845	2,500	157,345	161,067	5,431	155,636	1,222
Island Council	94,452	14,240	80,212	95,674	16,240	79,434	1,222
Women, Culture, Youth and Sport	32,868	0	32,868	34,090	0	34,090	1,222
Agriculture	52,082	100	51,982	53,304	500	52,804	1,222
	958,356	41,140	917,216	965,687	48,471	917,216	7,331
Rakahanga							

MINISTRY	Supplementary Estimate 2011/12			Budget Estimate 2012/13			Gross Change
	Gross Expenditure	Trading Revenue	Net Appropriation	Gross Expenditure	Trading Revenue	Net Appropriation	
Agriculture	31,737	5,000	26,737	31,267	1,500	29,767	-470
Marine	43,728	8,000	35,728	87,257	27,000	60,257	43,529
Beautification	0	0	0	45,432	1,000	44,432	45,432
Infrastructure	173,802	15,000	158,802	121,342	3,000	118,342	-52,460
Energy	85,615	25,253	60,362	73,976	20,000	53,976	-11,639
Island Administration	85,361	1,200	84,161	76,415	1,500	74,916	-8,946
Island Council	37,223	0	37,223	44,888	5,453	39,436	7,665
	457,466	54,453	403,013	480,577	59,452	421,125	23,111
MINISTERIAL SUPPORT							
Prime Minister	370,000	0	370,000	375,250	0	375,250	5,250
Deputy Prime Minister	310,000	0	310,000	310,000	0	310,000	0
Minister Mark Brown	325,000	0	325,000	285,000	0	285,000	-40,000
Minister Teariki Heather	205,000	0	205,000	205,000	0	205,000	0
Minister Nandi Glassie	205,000	0	205,000	205,000	0	205,000	0
Minister Teina Bishop	205,000	0	205,000	205,000	0	205,000	0
Leader of the Opposition	205,000	0	205,000	205,000	0	205,000	0
	1,825,000	0	1,825,000	1,790,250	0	1,790,250	-34,750
OTHER FUNDING - ADMINISTERED BY MFEM							0
Capital distribution fund - depreciation only	21,420	0	21,420	21,420	0	21,420	0
Outer islands small capital fund - depreciation only	13,750	0	13,750	13,750	0	13,750	0
	35,170	0	35,170	35,170	0	35,170	0
GRAND TOTAL	62,065,832	4,961,143	56,962,449	61,497,028	5,209,240	56,287,788	-570,804

Schedule 6 - Capital Schedule

MINISTRY	Budget 2012-13		
	Purchase Price	Net Cost	Total
EDUCATION			
Fund to be Prioritised by Education	110,000	110,000	
TOTAL	110,000	110,000	110,000
FOREIGN AFFAIRS			
Equipment for Forum Leaders	150,000	150,000	
TOTAL	150,000	150,000	150,000
HEALTH			
Fund to be Prioritised by Health for Technical Equipment	275,000	275,000	
Biochemistry Analyser	130,000	130,000	
Xray Unit	90,000	90,000	
TOTAL	495,000	495,000	495,000
INFRASTRUCTURE & PLANNING			
Mangaia Harbour completion	212,000	212,000	
ICT upgrades	40,000	40,000	
Nassau Outboard Motor Procurement	24,000	24,000	
Penrhyn Barge	48,000	48,000	
Atiu Power Generators	480,000	480,000	
Manihiki Generators	78,489	78,489	
Nassau Power Generators (Lister March 2012)	42,507	42,507	
Aitutaki Tip Truck	161,499	161,499	
Mangaia Quarry Machine upgrade	18,000	18,000	
Mitiaro Tractor & Back Blade Tractor	9,199	9,199	
Bridges & Drainage	775,000	775,000	
Road Network maintenance	680,000	680,000	
Contribution from home owners to Sanitation Upgrades	-200,000	-200,000	
TOTAL	2,368,694	2,368,694	2,368,694
JUSTICE			
Computers and IT Equipment	43,000	43,000	
TOTAL	43,000	43,000	43,000
POLICE			
Life Rafts	10,000	10,000	
TOTAL	10,000	10,000	10,000
OFFICE OF THE PRIME MINISTER			
Rakahanga generator control panels and powerhouse	95,000	95,000	
Computer Equipment	20,000	20,000	
TOTAL	115,000	115,000	115,000
OFFICE OF THE PRIME MINISTER			
Human Resources Information Management System	180,000	180,000	
TOTAL	180,000	180,000	180,000
COOK ISLANDS INVESTMENT CORPORATION			
National Education Renewal Programme	373,000	373,000	
National Health Renewal Program	540,300	540,300	
Parliament Building	20,000	20,000	
TOTAL	933,300	933,300	933,300
MINISTRY TOTAL	4,404,994	4,404,994	4,404,994
CAPITAL FUNDS ADMINISTERED BY MFEM			
Capital Distribution Fund	220,000	220,000	
Outer Islands Small Capital Fund	110,000	110,000	
TOTAL	380,000	330,000	330,000
GRAND TOTAL	4,784,994	4,734,994	4,734,994

Schedule 7
Revenue on Behalf of Crown (ROBOC)

	2011/12 Budget Estimates	2011/12 Supplementary Estimates	2012/13 Budget Estimates	Variance
Taxation Revenue				
VAT	36,400,458	37,010,000	36,625,423	-384,577
Income tax	25,926,363	26,572,000	26,825,768	253,768
Company tax	9,244,554	10,308,000	11,000,864	692,864
Import levies	11,380,812	12,030,000	13,038,251	1,008,251
Departure tax	6,070,892	6,170,000	6,481,006	311,006
Withholding tax	1,000,000	586,000	899,992	313,992
Total	90,023,079	92,676,000	94,871,303	2,195,303
Other Crown Revenue				
Foreign Investment Fees	17,250	17,250	17,250	0
Tattslotto Grants	160,000	160,000	120,000	-40,000
Employer Liabilities	75,000	75,000	75,000	0
Censorship Fees	24,000	24,000	10,000	-14,000
CISNOC Reimbursement Olympic Cost	0	0	93,000	93,000
Immigration Fees	468,000	468,000	540,000	72,000
Court Services	46,899	46,899	40,000	-6,899
Fisheries - US Treaties	286,411	286,411	486,250	199,839
Fishing Licences	1,540,000	1,540,000	2,440,000	900,000
Financial Services Commission	487,133	487,133	292,630	-194,503
Drivers Licences	590,000	590,000	630,000	40,000
Instant Fines	80,000	80,000	65,000	-15,000
Motor Vehicle Registration	553,000	553,000	600,000	47,000
Research Fee	700	700	700	0
Permits	55,816	55,816	25,816	-30,000
Shipping Registration	65,000	65,000	70,000	5,000
International Shipping Licence	10,000	10,000	10,000	0
Liquor Licensing	26,000	26,000	26,000	0
Motor Vehicle Dealers	5,000	5,000	5,000	0
Upper Air Management Agreement	416,480	416,480	454,800	38,320
Circulating Currency - Coins	100,000	100,000	100,000	0
Numismatics	400,000	400,000	500,000	100,000
Telecom Cook Islands - dividend	1,300,000	1,300,000	1,150,000	-150,000
Banana Court - dividend	10,000	10,000	10,000	0
Bank of the Cook Islands - dividend	381,000	381,000	439,950	58,950
Punganga Nui Market - dividend	30,000	30,000	0	-30,000
Te Aponga Uira - dividend	1,330,000	1,330,000	500,000	-830,000
Interest on loans to subsidiaries	190,000	175,000	202,567	27,567
Interest on balances	2,247,000	2,247,000	1,824,000	-423,000
Total Other	10,894,689	10,879,689	10,727,963	-151,726
Total Crown Receipts	100,917,768	103,555,689	105,599,266	2,043,577

Schedule 8
Payments on Behalf of Crown (POBOC)

Administering Ministry	POBOC	Supplementary Estimates 2011/12	Budget Estimates 2012/13	Variance
Compensation of Employees				
CIIC	Infrastructure Committee	0	50,000	50,000
Crown Law	Law Commission	10,000	0	-10,000
Finance and Economic Management	Parliamentary Superannuation	220,000	180,000	-40,000
	National Heritage Trust	84,350	82,241	-2,109
	PERC Salaries and Administration Costs	45,000	45,000	0
Internal Affairs	Price Tribunal	30,000	30,000	0
Justice	Judges Allowances	177,000	177,000	0
Marine Resources	Establishment of Seabed Minerals Commission	50,000	370,000	320,000
Parliamentary Services	Civil List - Personnel	1,834,870	1,743,127	-91,743
	House of Ariki	175,000	175,000	0
Public Service Commission	HOM Salaries	0	1,138,279	1,138,279
Transport	Director of Civil Aviation	56,000	56,000	0
		2,682,220	4,046,647	1,364,427
Use of Goods and Services				
Agriculture	Agriculture Census	36,000	0	-36,000
CIIC	Lease extension OPSC/Intaff	14,000	0	-14,000
Crown Law	Operation Eagle Defendants	60,000	70,000	10,000
Cultural Development	Queen Elizabeth's Diamond Jubilee Celebrations	130,000	0	-130,000
	Te Maeva Nui Constitution Celebrations	850,000	807,500	-42,500
	Temporary Premises Rental Costs	25,000	0	-25,000
Education	Tertiary Training Institutions	0	493,767	493,767
	Youth Suicide Prevention Forum	30,000	0	-30,000
	Audit of Crown Accounts	30,000	30,000	0
Finance and Economic Management	Banking Review	25,000	0	-25,000
	Census	120,000	0	-120,000
	Independent review of CISNOC accounts	8,000	0	-8,000
	National Superannuation Fund	321,668	313,626	-8,042
	Review of Apex Agencies Limited	20,000	0	-20,000
	Standard and Poors Subscription	35,000	35,000	0
	Pacific Forum Leaders Forum	95,000	500,000	405,000
Foreign Affairs	Domestic Hosting Entertainment	15,000	15,000	0
Head Of State	Pharmaceuticals	642,800	642,800	0
Health	Tertiary Training Institutions	493,767	0	-493,767
Human Resource Development	Outer Islands Equipment Repairs of			
Infrastructure and Planning	Unanticipated Breakdowns	100,000	100,000	0
Internal Affairs	Lease extension	0	36,000	36,000
	Vaka Maintenance	450,000	450,000	0
Parliamentary Services	Civil List - Operating Expenses	745,798	529,475	-216,323
	Commonwealth Forum	0	150,000	150,000
	PPAPD - FDOC Secretariat	35,000	35,000	0
Prime Minister's Office	Social Responsibility Fund	195,000	195,000	0
Police	Search and Rescue	20,000	20,000	0
	Serious Crime Investigations	50,000	50,000	0
	Te Kukupa - Fuel Contribution	140,000	140,000	0
	Te Kukupa Slippage	0	20,000	20,000
	HOM's Appointments	30,000	0	-30,000
Public Service Commission	HOM's Appointments	30,000	0	-30,000
Tourism Corporation	Marketing Resources - Tourism Growth Strategy	2,000,000	2,000,000	0
	Events Management - Kiwi League	40,000	0	-40,000
Transport	International Civil Aviation Organisation	72,000	72,000	0
	International Maritime Organisation	22,600	22,600	0
	Pacific Aviation Safety Office	22,482	22,482	0
	TCI - Maritime Shipping Service	62,332	79,191	16,859
		6,936,447	6,829,441	-107,006

Administering Ministry	POBOC	Supplementary Estimates 2011/12	Budget Estimates 2012/13	Variance
Subsidies				
Education	University of the South Pacific Contribution	0	285,000	285,000
Finance and Economic Management	Air New Zealand - Subsidies	12,500,000	13,600,000	1,100,000
	Apex - Profit Guarantee	1,556,823	1,500,000	-56,823
	FSC - subsidy to meet depreciation expenses	0	50,000	50,000
	Subsidy of audio/visual broadcasting in Pa Enea	25,000	25,000	0
Human Resource Development	University of the South Pacific Contribution	285,000	0	-285,000
Transport	Outer Island Shipping and Freight Subsidy	0	100,000	100,000
		14,366,823	15,560,000	1,193,177
Social Assistance				
CIIC	Te Aponga Uria - uneconomic power connections	80,000	50,000	-30,000
Education	Foundation Basic Skills Training	0	100,000	100,000
	Crown Funded Scholarships	0	120,000	120,000
	Student Assistance Fund (In-Country and Overseas)	0	160,000	160,000
Health	Patient Referrals	500,000	500,000	0
Human Resource Development	Foundation Basic Skills Training	100,000	0	-100,000
	Crown Funded Scholarships	120,000	0	-120,000
	Student Assistance Fund (In-Country and Overseas)	160,000	0	-160,000
Internal Affairs	Welfare Payments	12,495,360	13,095,800	600,440
Justice	Legal Aid	40,000	40,000	0
		13,495,360	14,065,800	570,440
Other Expense				
Education	Private School Funding	1,620,079	1,731,295	111,216
Finance and Economic Management	Insurance	40,000	40,000	0
Foreign Affairs	International Subscriptions	368,032	368,032	0
Marine Resources	Establishment of Fisheries Development Facility	200,000	200,000	0
Internal Affairs	CISNOC Grant	190,000	120,000	-70,000
	CISNOC - Olympic Games	93,000	0	-93,000
	NGO and Welfare Organisations	221,000	221,000	0
		2,732,111	2,680,327	-51,784
Grand Total		40,212,961	43,182,215	2,969,254

**Schedule 9
Debt Servicing Schedule**

	Total Loans			On-Lent Loans			Net
	Principal	Interest	Gross	Principal	Interest	Gross	
Creditors							
France	581	28	609	0	0	0	609
New Zealand	929	21	949	0	0	0	949
Asian Development Bank USD	812	273	1,085	0	118	118	967
Asian Development Bank -XDR	1,095	387	1,482	0	85	85	1,397
China	0	285	285	0	0	0	285
Total Debt Servicing	3,416	993	4,410	0	203	203	4,207

Notes

1. All estimates are based on average exchange rate for March 2012 (0.8028)
2. Subsidiary loans are funds from Asian Development Bank and have been on-lent to Cook Islands Ports Authority

Schedule 10
Official Development Assistance (ODA) Schedule

<i>Lead Agency, Activity Description</i>	<i>Development Partner</i>	<i>2011/12 Estimated spend</i>	<i>Budget 2012/13</i>	<i>Budget 2013/14</i>	<i>Budget 2014/15</i>	<i>Total life span activity cost</i>
		2,477,000	263,000	291,000		3,031,000
Pearl Industry Revitalisation	New Zealand Aid	2,477,000	263,000	291,000		3,031,000
Ministry of Marine Resources		522,000	758,000	457,000	382,000	2,120,000
CI Fisheries Initiative (CIFI)	Australia Regional	175,000	226,000			402,000
Fisheries Project Development Fund	FFA	202,000	362,000	362,000	362,000	1,288,000
Commissioner, legislation, TA	Commonwealth Secretariat	145,000	170,000	95,000	20,000	430,000
CI Tourism Corporation		3,000,000	3,000,000	3,000,000	3,000,000	15,000,000
Tourism Sector Support	New Zealand Aid	3,000,000	3,000,000	3,000,000	3,000,000	15,000,000
Ports Authority		1,760,000				1,760,000
Alternative Jetty at Arorangi	New Zealand Aid	1,760,000				1,760,000
Ministry of Education		3,683,000	3,853,000	3,883,000	3,988,000	16,763,000
Education Sector Partnership	New Zealand Aid	3,070,000	3,240,000	3,270,000	3,375,000	14,311,000
Scholarships, Training Awards	New Zealand Aid	613,000	613,000	613,000	613,000	2,452,000
Ministry of Health		1,401,800	1,324,112	1,175,700	1,285,700	5,192,143
Health Specialist Visits Programme	New Zealand Aid	580,000	540,000	390,000	500,000	2,010,000
Strengthening Reproductive Health	WHO	150,000	150,000	150,000	150,000	600,000
Strengthening the management, prevention of TB in the Cook Islands	Global Fund	71,500	93,212	78,000	78,000	320,712
Management and prevention of HIV and STI	Global Fund	138,600	79,200	96,000	96,000	409,800
Establish multi-sectorial approach to profiling, planning, implementation and monitoring and evaluating initiatives to combat NCDs and associated risk factors	SPC	190,500	190,500	190,500	190,500	762,000
Human resources development (fellowships), non communicable diseases, healthy promotion, nutrition and tobacco control.	WHO	271,200	271,200	271,200	271,200	1,084,000
General support	UNAIDS	0	0	0	0	5,631

<i>Lead Agency, Activity Description</i>	<i>Development Partner</i>	<i>2011/12 Estimated spend</i>	<i>Budget 2012/13</i>	<i>Budget 2013/14</i>	<i>Budget 2014/15</i>	<i>Total life span activity cost</i>
Ministry of Agriculture		223,200	223,200	223,200		670,800
The Agriculture Census and Statistics project, Food and Ornamental Crop Production	FAO	223,200	223,200	223,200		670,800
CI Police Service		443,000	260,000	120,000	120,000	1,843,000
Police Development Programme	New Zealand Aid	300,000	0	0	0	1,200,000
CI Police Service HR development	Australian Federal Police		60,000			60,000
Te Kukupa TA, operations	NZDF	143,000	200,000	120,000	120,000	583,000
Other						
Programme carry forward previous years						
Ministry of Foreign Affairs and Immigration		911,200	7,220,000	6,000,000	0	14,131,200
China grants in kind	China	780,000	7,220,000	6,000,000	0	14,000,000
Korea Grant in kind	Korea	131,200				131,200
Ministry of Finance and Economic Management		4,476,900	5,658,838	8,285,000	4,365,000	22,860,000
Automated Border Management System	New Zealand Aid	1,026,000	735,838	135,000	135,000	1,026,000
India Grant Fund	India	71,900	558,000	150,000	150,000	810,000
Water and Sanitation General Budget Support	EU	0	4,080,000		4,080,000	8,160,000
Water Facility Grant	EU	0	0	8,000,000		8,000,000
Mitiaro Water upgrade	EU	0				
Pukapuka Cyclone Centre	EU	3,200,000				4,400,000
MFEM systems improvements	EU	149,000	80,000			229,000
Web tax lodgement System Revenue Management system enhancements	New Zealand Aid		205,000			205,000
Accounting software for aid management	New Zealand Aid	30,000				30,000
Ministry of Infrastructure and Planning		6,306,853	13,599,000	5,850,000	5,650,000	60,630,000
Aitutaki Recovery and Reconstruction plan	New Zealand Aid	412,201				6,000,000
Mauke and Mitiaro Harbours	New Zealand Aid	3,380,000				5,800,000
Northern Water Improvement program. Household supply	New Zealand Aid					2,200,000

<i>Lead Agency, Activity Description</i>	<i>Development Partner</i>	<i>2011/12 Estimated spend</i>	<i>Budget 2012/13</i>	<i>Budget 2013/14</i>	<i>Budget 2014/15</i>	<i>Total life span activity cost</i>
Red Cross National Centre	New Zealand Aid	412,000				1,000,000
Renewable Energy programme support				650,000		1,300,000
Technical Assistance	New Zealand Aid	34,652				60,000
Water sector support NZ	New Zealand Aid	0	5,000,000			5,000,000
Waste Management and Sanitation improvement program	New Zealand Aid	1,460,000	3,000,000	3,000,000	5,000,000	27,920,000
Integrated Water Resources Management (IWRM)	SOPAC	100,000	200,000	200,000		500,000
Pacific Adaptation to Climate Change (PACC) Cook Islands	UNDP	52,000	835,000			3,180,000
Water Supply (FAP)	New Zealand Aid	0	3,000,000	2,000,000	0	5,000,000
Improved infrastructure service delivery technical assistance	ADB	456,000	264,000	0	0	720,000
Northern Water Improvement programme - Community water tank upgrades (2011 carry fwd)	Australia Adaptation	0	650,000			650,000
Mangaia water upgrades	Australia Adaptation	0	650,000			650,000
Penrhyn Coastal Harbour upgrade	Australia Adaptation				650,000	650,000
Office of the Prime Minister		1,939,440	7,349,500	11,489,000	5,151,560	26,035,500
Energy Transformation	SIDS-DOCK			2,330,000		2,330,000
PV Ministry grids	PEC(JAPAN)	200,000	1,260,000	3,390,000		4,850,000
Renewable Energy programme support	New Zealand Aid	1,000,000	2,500,000	4,000,000	4,000,000	11,500,000
Strengthening Resilience of Island Communities	UNFCCC	448,440	2,660,000	1,692,000	1,151,560	5,952,000
Community Centred Sustainable Development plans	UNDP	44,000	40,000			190,000
Power sector study, EIA, verifications. (PIGGAREP)	SPREP	106,000	244,000	77,000		427,000
Climate change office, coastal adaptation needs analysis, planning and policy	New Zealand Aid	100,000	645,500			745,500
Aitutaki Early Recovery	UNDP	41,000				41,000
Te Aponga Uira		520,000	540,000	520,000	520,000	2,100,000
Promoting Energy Efficiency in the Pacific	ADB	520,000	540,000	520,000	520,000	2,100,000
Financial Services Commissioner		165,000				550,000

<i>Lead Agency, Activity Description</i>	<i>Development Partner</i>	<i>2011/12 Estimated spend</i>	<i>Budget 2012/13</i>	<i>Budget 2013/14</i>	<i>Budget 2014/15</i>	<i>Total life span activity cost</i>
Online Companies Registry	New Zealand Aid	165,000				550,000
Public Service Commissioner		740,000	1,600,000	1,600,000	1,000,000	5,960,000
CI Technical Assistance Facility (PSTAF)	New Zealand Aid	400,000	1,300,000	1,300,000	1,000,000	5,000,000
Public Sector Functional Review	ADB	340,000	300,000	300,000		960,000
Ministry of Internal Affairs		741,000	1,504,000	750,000	650,000	3,645,000
Social welfare review, protection of the vulnerable	ADB	106,000	854,000	100,000		1,060,000
Social Impact Fund (replaces NGO and community initiatives scheme)	New Zealand Aid	635,000	650,000	650,000	650,000	2,585,000
National Environment Service		441,700	345,500	235,000	139,000	1,801,428
Conservation Management of Island Biodiversity	Global Environment Fund (GEF)	144,000	168,000	96,000		408,000
Prevention, control and management	Global Environment Fund (GEF)	0	126,000	139,000	139,000	404,000
Building Capacity for Sustainable Land management	UNDP	200,000	30,000			500,000
Institutional Strengthening for Ozone depletion	UNDP	0				46,428
Preparation for national adaptation to climate change (2nd Nat Com and 3/4 national report)	ITALY	75,000				85,000
Persistent Organic Pollutants POPs	UNDP	22,700	21,500			358,000
Grand Total		29,752,093	47,498,150	43,878,900	26,251,260	184,093,071

Financial Statements

As at 30 June

The forecasted financial estimates of the Crown are set out on the following pages.

- (1) Statement of Financial Performance**
- (2) Statement of Financial Position**
- (3) Statement of Cash Flows**
- (4) Statement of Borrowings**
- (5) Summary of Revenue Levied on Behalf of the Crown**
- (6) Statement of Financial Risks**

Schedule 11
Statement of Financial Performance
For the years ending 30 June

	Actual 2009/10 ('000)	Supp Bud 2010/11 ('000)	Actual 2010/11 ('000)	Budget 2011/12 ('000)	Supp Bud 2011/12 ('000)	Budget 2012/13 ('000)	Projected 2013/14 ('000)	Projected 2014/15 ('000)
Revenue								
Taxation revenues	85,587	78,105	86,052	87,001	89,555	91,921	94,031	96,828
<u>Other revenue</u>								
Revenue on behalf of the Crown	7,859	13,694	8,286	8,429	8,528	9,551	11,005	11,326
Sale of goods and services	5,413	5,155	5,155	5,193	5,193	5,209	5,209	5,234
Interest	2,065	2,652	2,652	2,437	2,422	2,027	2,027	2,027
Dividends	2,510	3,622	3,213	3,051	3,051	2,100	2,170	2,247
Total Revenue	103,434	103,228	105,358	106,111	108,749	110,808	114,442	117,662
Expenditure								
Appropriations to agencies	63,615	64,095	64,095	63,859	63,989	61,497	61,761	61,996
Payments on behalf of Crown	23,115	29,654	30,274	35,093	40,213	43,182	42,615	42,558
Debt-servicing interest	947	879	879	1,023	969	993	938	839
Building maintenance	1,957	1,800	1,800	1,300	1,300	1,800	1,800	1,800
Infrastructure depreciation	2,397	2,950	2,950	2,469	2,469	3,478	5,074	6,935
Other expenditure	10,712	2,841	2,841	2,335	2,375	3,071	3,445	2,385
Total Expenditure	102,743	102,219	102,839	106,079	111,315	114,021	115,633	116,513
NET OPERATING SURPLUS / (DEFICIT)	691	1,009	2,519	32	-2,566	-3,213	-1,191	1,149

Schedule 12
Statement of Financial Position
As at 30 June

	Actual 2009-10 ('000)	Supp Bud 2010-11 ('000)	Estimate 2010-11 ('000)	Budget 2011-12 ('000)	Supp Bud 2011-12 ('000)	Budget 2012-13 ('000)	Projected 2013-14 ('000)	Projected 2014-15 ('000)
Assets								
Cash and equivalents	38,225	39,581	41,052	40,895	39,254	35,519	36,208	40,093
Loan reserves	22,034	20,505	20,505	19,076	19,076	17,839	16,602	15,365
Trust accounts	5,716	6,106	6,146	6,781	6,796	7,270	7,740	8,224
Inventory	1,509	1,509	1,509	1,509	1,509	1,509	1,509	1,509
Tax receivables	21,361	21,361	26,324	26,324	25,008	23,757	22,570	21,441
Debtors and other receivables	4,181	4,181	4,181	4,181	4,181	4,181	4,181	4,181
Advances to SOEs	21,483	21,196	21,196	27,205	27,492	27,492	27,281	27,048
Investment in SOEs	146,733	146,733	146,733	146,733	146,733	146,733	146,733	146,733
Plant, property, and equipment	90,962	92,985	92,985	103,870	104,023	115,441	115,308	113,173
Total Assets	352,204	354,158	360,631	376,574	374,071	379,742	378,131	377,767
Liabilities								
Creditors and other payables	13,683	13,683	13,683	13,683	13,683	13,683	13,683	13,683
Trust liabilities	5,239	5,239	5,239	5,239	5,239	5,239	5,239	5,239
Borrowings	110,747	95,836	95,836	107,349	107,349	88,981	84,644	80,071
Total Liabilities	129,669	114,758	114,758	126,271	126,271	107,903	103,566	98,993

Net Crown Balance	222,535	239,400	245,873	250,303	247,800	271,839	274,565	278,774
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Schedule 13

Statement of Cashflows For the years ending 30 June

	Actual 2009-10 ('000)	Estimate 2010-11 ('000)	Budget 2011-12 ('000)	Supp Bud 2011-12 ('000)	Budget 2012-13 ('000)	Projected 2013-14 ('000)	Projected 2014-15 ('000)
Cashflows from Operating Activities							
<u>Cash provided from:</u>							
Taxation and levies	85,587	86,052	87,001	89,555	91,921	94,031	96,828
Collection of tax arrears	0	0	0	1,316	1,250	1,188	1,128
Sale of goods and services	5,413	5,155	5,193	5,193	5,209	5,209	5,234
Interest	2,065	2,652	2,437	2,422	2,027	2,027	2,027
Dividends	2,510	3,213	3,051	3,051	2,100	2,170	2,247
Other income	7,859	8,286	8,429	8,528	9,551	11,005	11,326
	<u>103,434</u>	<u>105,358</u>	<u>106,111</u>	<u>110,065</u>	<u>112,058</u>	<u>115,630</u>	<u>118,790</u>
<u>Cash applied to:</u>							
Appropriations to agencies (less depn)	60,704	60,903	60,575	60,705	58,012	57,936	58,031
Payments on behalf of Crown	23,115	30,274	35,093	40,213	43,182	42,615	42,558
Debt-servicing interest	947	879	1,023	969	993	938	839
Building maintenance	1,957	1,800	1,300	1,300	1,800	1,800	1,800
Other expenditure	10,712	2,841	2,335	2,375	3,071	3,445	2,385
	<u>97,435</u>	<u>96,697</u>	<u>100,326</u>	<u>105,562</u>	<u>107,058</u>	<u>106,734</u>	<u>105,613</u>
Net Operating Activity Cashflows	5,999	8,661	5,785	4,503	5,000	8,896	13,177
Cashflows from Investing Activities							
<u>Cash provided from:</u>							
Subsidiary loan repayments	143	287	287	0	0	211	233
	<u>143</u>	<u>287</u>	<u>287</u>	<u>0</u>	<u>0</u>	<u>211</u>	<u>233</u>
<u>Cash applied to:</u>							
Capital expenditure	20,072	4,709	12,239	12,297	13,632	4,814	4,814
Advances to Subsidiaries	20,523	0	6,296	6,296	0	0	0
	<u>40,595</u>	<u>4,709</u>	<u>18,535</u>	<u>18,593</u>	<u>13,632</u>	<u>4,814</u>	<u>4,814</u>
Net Investing Activity Cashflows	-40,452	-4,422	-18,248	-18,593	-13,632	-4,603	-4,581
Cashflows from Financing Activities							
<u>Cash provided from:</u>							
Loans drawn down	38,724	0	14,334	14,334	7,550	0	0
Cash drawn from loan reserves	0	1,529	1,429	1,429	1,237	1,237	1,237
	<u>38,724</u>	<u>1,529</u>	<u>15,763</u>	<u>15,763</u>	<u>8,787</u>	<u>1,237</u>	<u>1,237</u>
<u>Cash applied to:</u>							
Loan repayments	3,227	2,511	2,821	2,821	3,416	4,371	5,464
Loan reserves	1,100	0	0	0	0	0	0
Other reserves	448	430	635	650	474	470	484
	<u>4,775</u>	<u>2,941</u>	<u>3,456</u>	<u>3,471</u>	<u>3,890</u>	<u>4,841</u>	<u>5,948</u>
Net Financing Activity Cashflows	33,949	-1,412	12,307	12,292	4,897	-3,604	-4,711
Net cash movements	-504	2,827	-156	-1,798	-3,735	689	3,885
Add: Opening Cash and Equivalents	38,729	38,225	41,052	41,052	39,254	35,519	36,208
Closing Cash and Equivalents	38,225	41,052	40,895	39,254	35,519	36,208	40,093

Schedule 14
Statement of Borrowings
As at 30 June

	Actual 2009-10 ('000)	Estimate 2010-11 ('000)	Budget 2011-12 ('000)	Supp Bud 2011-12 ('000)	Budget 2012-13 ('000)	Projected 2013-14 ('000)	Projected 2014-15 ('000)
<i>Total Gross Borrowings</i>	110,747	95,836	107,349	107,349	88,981	84,644	80,071
Assets Held Against Borrowings:							
Advances to subsidiaries	21,483	21,196	27,205	27,492	27,492	27,281	27,048
Loan reserves	22,034	20,505	19,076	19,076	17,839	16,602	15,365
<i>Total Assets Held Against Borrowings</i>	43,517	41,701	46,281	46,568	45,331	43,883	42,413
<i>Net Borrowings of the Government</i>	67,230	54,135	61,068	60,781	43,650	40,761	37,658

Schedule 15

Revenue Levied on Behalf of the Crown For the years ending 30 June

	Actual 2009-10 ('000)	Estimate 2010-11 ('000)	Budget 2011-12 ('000)	Supp Bud 2011-12 ('000)	Budget 2012-13 ('000)	Projected 2013-14 ('000)	Projected 2014-15 ('000)
<u>Taxation</u>							
Income tax	26,400	25,155	25,926	26,572	26,826	27,579	28,544
Company tax	9,895	9,942	9,245	10,308	11,001	11,204	11,597
Import levies	10,183	11,066	11,381	12,030	13,038	13,587	13,994
VAT	35,229	34,979	36,400	37,010	36,625	37,197	38,199
Withholding tax	0	0	1,000	586	900	933	963
Other	3,880	4,910	3,049	3,049	3,531	3,531	3,531
Total Revenue Levied on Behalf of the Crown	85,587	86,052	87,001	89,555	91,921	94,031	96,828

Schedule 16

Statement of Fiscal Risks

As at 30 June

	('000)
Quantifiable Contingent Liabilities	
Guarantees and indemnities	500
Uncalled capital	1,562
Legal proceedings and disputes	17,700
<i>Total Quantifiable Contingent Liabilities</i>	<i>19,762</i>

Guarantees and indemnities relate to the following:

Government has entered into a programme under the New Zealand Aid Programme focused on Pearl Sector Support run through the Cook Islands Pearl Authority. Through the programme the Government has agreed to guarantee up to \$0.5 million as security for loans associated with the Pearl Production Credit Scheme. The full guarantee has been included as a contingent liability.

Uncalled capital relates to shares in the Asian Development Bank - Cook Islands Government Property Corporation owns 88 uncalled shares with a par value of US\$13,500 each.

Legal proceedings and disputes relate to current cases against the Crown.

Reconciliation between Gross Appropriations and Estimated Expenses GFS Basis and Estimated Cash Payments for Operating Expenses

	Budget Estimate 2011/12	Supplementary Budget 2011/12	Budget Estimate 2012/13	Projection 2013/14	Projection 2014/15
Gross Appropriations (as per Summary Table)	172,097,116	178,337,476	179,069,133	179,536,569	184,713,459
Less payments associated with the net acquisition of assets and liabilities					
Payments associated with the acquisition of fixed assets	37,783,178	38,493,266	42,462,832	45,749,887	51,211,400
Payments associated with the repayment of financial liabilities	2,821,033	2,821,033	3,416,438	4,336,909	4,573,672
Payments associated with the acquisition of financial assets	7,466,645	7,466,645	1,170,597	1,170,597	1,170,597
Inter-fund transfers	650,115	650,115	474,357	492,597	508,194
Plus un-appropriated Contingency Reserve	- 48,720,971	- 49,431,059	- 47,524,224	- 51,749,990	- 57,463,863
Less ROBOC classified as offsets to expenses					
CISNOC Reimbursement Olympic Cost	0	0	93,000	0	0
Equals					
Estimated Operating Expenses (GFS Basis) <i>(from Operating Statement)</i>	123,376,145	128,906,417	131,451,909	127,786,579	127,249,596
Less Non-cash Appropriations					
Depreciation	5,752,911	5,752,911	6,963,219	8,899,183	10,900,403
Equals					
Estimated Cash Payments for Operating Activities (from Statement and Uses of Cash Report)	117,623,234	123,153,506	124,488,690	118,887,396	116,349,193

Reconciliation Between Gross Receipts and Estimated Operating Revenues (GFS Basis)

	Budget Estimate 2011/12	Supplementary Budget 2011/12	Budget Estimate 2012/13	Projection 2013/14	Projection 2014/15
Gross Receipts	164,736,465	168,033,833	165,876,656	167,926,598	176,121,051
<i>Less receipts associated with the net acquisition of assets</i>					
On-Lending Repayments	286,800	-	-	87,037	187,349
<i>Less receipts associated with the net acquisition of liabilities</i>					
Coins in circulation	20,000	20,000	20,000	20,000	20,000
Foreign Aid - Loans	14,333,548	14,333,548	7,550,000	9,500,000	32,000,000
Other Loans	-	-	-	9,520,000	-
<hr/>					
<i>Less ROBOC classified as offsets to expenses</i>					
CISNOC Reimbursement Olympic Cost	0	0	93,000	0	0
<i>Equals</i>					
Estimated Operating Revenues (GFS Basis) <i>(from Operating Statement)</i>	150,096,117	153,680,285	158,213,656	158,319,561	143,913,702

16 STATEMENT OF ACCOUNTING POLICIES

16.1 Basis of Preparation

Reporting Entity

These financial statements are for the Government of the Cook Islands. These consist of:

- Ministers of the Crown
- Ministries
- Island Administrations
- Offices of Parliament
- Public Enterprises and Other Authorities

A schedule of the entities included in these financial statements is detailed on page 23.

Statement of Compliance

These financial statements have been prepared in accordance with the Ministry of Finance and Economic Management Act 1995-96 and with the International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board (IPSASB).

Measurement Base

The financial statements have been prepared on the going concern assumption and the accounting policies have been applied consistently throughout the period except where stated elsewhere in this Statement of Accounting Policies.

These financial statements have been prepared using the historical cost method to report results, cash flows and the financial position of the Crown. The financial statements have been prepared under the accrual basis of accounting and are presented in New Zealand dollars rounded to the nearest thousand dollars.

16.2 Significant Accounting Policies

The following accounting policies, which significantly affect the measurement of financial performance, financial position and cash flows, have been applied:

Recent Standards

Of significant relevance to the Crown is the recent development of new standards at the IPSASB. These include:

	<u>STANDARDS</u>	<u>EFFECTIVE DATE</u>
A.	IPSAS 25 Employee Benefits	1/01/2011
B.	IPSAS 26 Impairment of Cash Generating Assets	1/04/2009
C.	IPSAS 27 Agriculture	1/04/2011
D.	IPSAS 28 Financial Instruments: Recognition and Measurement	1/01/2013
E.	IPSAS 29 Financial Instruments: Presentation	1/01/2011
F.	IPSAS 30 Financial Instruments: Disclosure	1/01/2013

These new standards have been issued but are not yet effective for the Crown. The Crown will have to consider these new standards in future years. Crown has not yet determined the effect of these new standards.

Basis of Consolidation

The Government Ministries, Public Enterprises and Other Authorities (including State Owned Enterprises (SOEs)) comprising the reporting entity are consolidated involving addition of like items of assets, liabilities, revenues and expenses on a line by line basis.

The effect of all material inter-entity transactions and balances are eliminated on consolidation.

Commitments and contingent liabilities of Public Enterprises and Other Authorities are reported in the Statements of Commitments and of Contingent Liabilities.

Associate

An associate is an entity over which the Crown has significant influence where the entity is neither a subsidiary nor an interest in a joint venture. Investment in an associate is recognised at cost and the carrying amount is increased or decreased to recognise the Crown's share of the surplus or deficit after the date of acquisition. When the Crown transacts with an associate, all surplus and deficits related to the Crown are eliminated. Distributions received from an associate reduce the carrying value of the investment in the Crown Financial Statements.

Revenue

Revenue is measured at fair value of the consideration received or receivable.

Revenue Levied through the Crown's Sovereign Power

Payment of tax does not of itself entitle a taxpayer to an equivalent value of services or benefits; such revenue is received through the exercise of the Crown's sovereign power. Revenue arising through taxes is recognised when the taxable event occurs and when the criteria for recognition of an asset are met.

Revenue Type	Revenue Recognition Point
Individual Income Tax	When an individual earns income that is subject to PAYE or provisional tax. This also includes withholding taxes.
Company Income Tax	When the corporate community earns taxable income.
Value Added Tax	When the liability to the Crown is incurred. For example, the liability arising from sales in June being paid in July however recognised as revenue in June.
Customs levies	When goods liable to duty are assessed, except for Oil Companies which are accounted for when the liability to the Crown is incurred.
Departure Tax	When departure tax coupons are purchased.
Other Revenue	When the debt to the Crown arises.

Revenue Earned Through Operations

Revenue from sales of goods is recognised when the product is sold to the customer.

Fines

Fines are economic benefits or services potential received by the Crown from an individual or other entity, as determined by a court or other law enforcement body, as consequence of the individual or other entity breaching the requirements of laws and regulations.

Investment Income

Investment income is recognised in the period in which it is earned.

Gains

Realised gains arising from sale of assets or from the early settlement of a liability are recognised in the Statement of Financial Performance in the period in which the transaction is concluded.

Dividends

Dividends are recognised when the right to receive the payment has been established.

Aid Revenue

Revenue is recognised when donordevelopment partner funds are expensed on approved projects.

Expenses

Expenses are recognised when incurred and are reported in the financial period to which they relate.

Welfare Benefits

Welfare benefits are recognised in the period which the payment of these benefits relates to.

Grants and Subsidies

Where grants and subsidies are discretionary until payment, the expense is recognised when the payment is made. Otherwise, the expense is recognised when the specified criteria have been fulfilled and notice has been given to the Crown.

Losses

Realised losses arising from sales of assets or the early settlement of a liability are recognised in the Statement of Financial Performance in the period in which the transaction is concluded.

Foreign Currencies

Transactions in foreign currencies are translated into New Zealand dollar using the exchange rate on the date of the transaction. Foreign exchange gain and losses arising from these transactions are included in the Statement of Financial Performance.

Any monetary assets and monetary liabilities held at year end are translated at the exchange rate at the balance sheet date.

Aid Expenses

Expenses are recognised when incurred on approved projects and are reported in the financial period to which they relate.

Depreciation

Each part of an item of plant, property, and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

Depreciation of plant, property, and equipment is provided on a straight line basis so as to allocate the cost of assets to their estimated residual value over their estimated useful lives. Typically, the estimated useful lives are:

- Office and computer equipment 3 – 4 years
- Motor vehicles 5 years
- Furniture and fittings 4 – 10 years
- Buildings and improvements 10 years
- Coastal protection 25 years
- Power distribution network 20 years
- Roading network 30 years
- Water network 15 years
- Airport runways 15 – 100 years
- Harbour and ports structures 10 – 20 years
- Waste management facilities 15 years

Non-Current Assets

Plant, Property, and Equipment

Plant, property and equipment are recorded at cost less accumulated depreciation.

The cost of purchased plant, property, and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

The cost of assets constructed by the Crown includes the cost of all materials used in construction, direct labour on the project, financing costs that are directly attributable to the project and an appropriate proportion of variable and fixed overheads. Costs cease to be capitalised as soon as the asset is ready for productive use and do not include any inefficiency costs.

Disposals

When an item of plant, property and equipment is disposed, the gain or loss (disposal proceeds less carrying value) associated with that item will be recognised in the Statement of Financial Performance.

Additions

The cost of an item of plant, property and equipment is recognised as an asset if, and only if, there will be future economic benefits evident and where these benefits will flow to the Crown and the cost of the item can be measured reliably.

Work in Progress

Work in Progress is recognised as cost less impairment and is not depreciated.

Infrastructure Assets

Infrastructure assets are recorded at cost less accumulated depreciation.

The cost of purchased infrastructure assets is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

The cost of assets constructed by the Crown includes the cost of all materials used in construction, direct labour on the project, financing costs that are directly attributable to the project and an appropriate proportion of variable and fixed overheads. Costs cease to be capitalised as soon as the asset is ready for productive use and do not include any inefficiency costs.

Infrastructure assets include: roading networks, water networks, power distribution networks, coastal protection systems, harbour and ports structures and waste management and airport assets.

When an infrastructure asset is disposed of, the gain or loss (disposal proceeds less carrying value) associated with that item will be recognised in the Statement of Financial Performance.

Work in Progress is recognised as cost less impairment and is not depreciated.

Intangible Assets

Intangible assets are software acquisition costs.

Intangible assets are recorded at cost less accumulated amortisation.

The cost of purchased intangible assets is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

Intangible assets might include: databases, software purchased, or software developed.

Intangible Assets (continued)

When an intangible asset is disposed of, the gain or loss (disposal proceeds less carrying value) associated with that item will be recognised in the Statement of Financial Performance.

Amortisation of intangible assets is on a straight line basis so as to allocate the cost of assets to their estimated residual value over their estimated useful lives. Typically, the estimated useful lives are:

Software, databases: 3 - 5 years

Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts.

Receivables and Advances including Debtors and Other Receivables

Receivables and advances are recorded at cost.

After initial recognition, loans and receivables are measured at amortised cost less any provision for impairment. Gains and losses when assets are impaired or derecognised are recognised in the statement of financial performance.

Inventories

Inventories held for distribution or consumption in the provision of services that are not supplied on a commercial basis is measured at cost. Where inventories are acquired at no cost or for nominal consideration, the cost is the current replacement cost at the date of acquisition.

Inventories held for use in the production of goods and services on a commercial basis are valued at the lower of cost and net realisable value.

Investments

Investments in associate are accounted in the consolidated financial statements using the equity method. That is, investment in an associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the Crown's share of the surplus or deficit of the associate after the day of acquisition.

Banking portfolio investments

Loans are valued at net realisable value after provisions. Applicable security is obtained depending on the size and nature of loans. Non-performing loans are reviewed monthly on a case by case basis.

Provision for doubtful debts

Provision is made for taxation debt where recovery is considered doubtful. There is no general provision against taxation debt.

Provision is made for banking portfolio Investments (specific loans) where recovery is considered doubtful or they have become non-performing. There is no general provision against banking portfolio Investments.

Provision for doubtful debts (continued)

All bad debts are written off against specific provisions in the period in which they become classified as irrecoverable.

Aid Assets

Donor funds are deposited into bank accounts until expensed on approved assets.

Liabilities

Borrowings

Borrowing liabilities are accounted for at amortised cost. Any changes are recognised in the Statement of Financial Performance.

Pension Liabilities

Pension liabilities, in respect of the contributory service of current and past Members of Parliament, are recorded at the latest (30th June 1997) actuarial value of the Crown's liability

for pension payments. There are no pension liabilities accruing to the Crown as a result of the Government employees' membership of the Government Superannuation Fund (New Zealand).

Employee Entitlements

These include salaries and wages accrued up to balance date, annual level earned but not yet taken at balance date. A long service bonus is paid out on the completion of 3 years continuous service within the Government. The bonus is equivalent to a fortnight pay of the employee.

Other Liabilities

All other liabilities are recorded at the estimated obligation to pay. No liability for ongoing welfare payments has been recognised because no legal entitlement is considered to exist beyond the end of the current financial year until a new Appropriation Act is passed.

Aid Liabilities

Funds received from various development partners are treated as liabilities until expensed on approved projects at which stage the funding is included within the Statement of Financial Performance as revenue.

Cash Flow

A cash flow statement identifies the sources of cash inflow, the items on which cash was utilised and the cash balance at the reporting date for Crown. Included in the cash flow statements are financing activities which are activities that result in the change of size and composition of the contributed capital and borrowings of the Crown. Investing activities are the acquisition and disposal of long term assets and other investments and operating activities identifies how much the Crown received from its actual operations.

Cash flow information allows users to ascertain how the Crown raised the cash it required to fund its activities and the manner in which that cash was utilised.

Leases

Finance leases transfer, to the Crown as lessee, substantially all the risks and rewards incidental on the ownership of a leased asset. The obligations under such leases are capitalised at the present value of minimum lease payments. The capitalised values are amortised over the period in which the Crown expects to receive benefits from their use.

Operating leases, where the lessors substantially retain the risks and rewards of ownership, are recognised in a systematic manner over the term of the lease.

The cost of leasehold improvements is capitalised and amortised over the lesser of the leasehold improvements useful life or the original lease term.

Commitments

The Statement of Commitments discloses those operating and capital commitments arising from non-cancellable contractual or statutory obligations. Interest commitments on debts and commitments relating to employment contracts are not included.

Contingent Liabilities

Contingent liabilities are recorded when a possible obligation has arisen from an event in the past and which the existence will only be confirmed through the occurrence or non-occurrence of future events. Such liabilities will be disclosed if they are deemed to materially affect the reading of the presented financial statements.

CHANGES IN ACCOUNTING POLICIES

Plant, Property, and Equipment

For the financial year beginning 1st July 2007, the Crown has voluntarily changed the accounting policy surrounding the carrying value of plant, property, and equipment (PPE). The new policy records all PPE as cost less accumulated depreciation/amortisation and impairment whereas the previous policy required certain SOE assets to be carried at revalued amounts.

IPSAS 3 – Accounting Policies, Changes in Estimates, and Errors provides that for a change in accounting policy, retrospective adjustments are to be done through one of two allowed approaches:

- benchmark approach in which the value of the adjustment is taken through opening retained earnings; or
- alternative approach in which the value of the adjustment is brought through the current year's profit.

IPSAS 3 allows for a prospective application using either of the approaches above in the event that it is impracticable or impossible to determine accurate values relating to adjustments required.

As the historical adjustments cannot be determined in any practicable and timely manner, and those values that are available to the Crown are incomplete and unverifiable, including them into the financial statements would not be beneficial and would not provide more reliable information to be presented. As such, the Crown has adopted the prospective application to this change in policy. Therefore, the effect of this change in policy will be reflected from this accounting period going forward.

IPSAS 17 allows a choice of accounting model for an entire class of property, plant and equipment. The Crown has changed the accounting policy from the cost to revaluation model for the following classes of assets:

- Power network
- Harbors and ports
- Airports

These assets are now carried at revalued amounts which are the fair value at revaluation date less subsequent depreciation and impairment losses.